

REDEMPTION
of
AGRICULTURAL
INDEBTEDNESS
IN
BHAVNAGAR STATE.

BOMBAY :
THE TIMES OF INDIA PRESS,
1934.

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REDEMPTION
of
AGRICULTURAL
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IN
BHAVNAGAR STATE.

Presents to

*The Maharana's College
Library*

by

U. Bhatnagar
Prof. of Economics

BOMBAY:
THE TIMES OF INDIA PRESS,
1934.

MAHARANA BHUPAL
COLLEGE,
UDAIPUR.

Class A
Book No
.....

No. 195 of 1934.

To

HIS HIGHNESS MAHARAJA
RAOL SHREE KRISHNAKUMARSINHJI,
MAHARAJA OF BHAVNAGAR.

SECRETARIAT, BHAVNAGAR,
Dated 23rd April 1934.

YOUR HIGHNESS,

I have the honour to submit herewith the Report of the Revenue Department on the results of the Scheme of Debt Redemption of the Kheduts of the State, to which I have attached a short Explanatory Note which will speak for itself.

Mainly the success of the scheme is due to Your Highness' solicitude for the welfare of your people.

I have the honour to remain,
Your Highness' most obedient servant,

P. D. PATEL.

*President,
Bhavnagar State Council.*

No. 22 of 1934.

FROM

NATVARLAL MANEKLAL SURATI,
B.A., LL.B.,
REVENUE COMMISSIONER,
BHAVNAGAR STATE.

TO

SIR PRABHASHANKER D. PATTANI,
K.C.I.E.,
PRESIDENT, STATE COUNCIL,
BHAVNAGAR.

BHAVNAGAR, 31st March 1934.

SIR,

It is now more than four years since the Agricultural Debt Redemption Scheme was first applied to Lilia Mahal, and I am now happy and thankful to be able to say that this bold experiment mainly initiated and carried on under your direction has been brought to a successful termination and all parts of the State have been brought under the operations of the scheme.

Further I have under your instruction prepared a report, which, besides, being a résumé of the preceding investigations and findings of the Bhavnagar Khedut Debt Inquiry Committee, also gives in a brief compass an account of the operations of the Redemption Scheme adopted as a result of the Committee's recommendations. I now beg to send herewith the said report with a request for its respectful submission to His Highness the Maharaja Sahib in due course.

It may not be here out of place to recall how, while the Scheme was being slowly extended, those in charge of its working had their moments of doubts and misgivings about their being ever able to complete the work undertaken : and in a letter I wrote to you in October 1932, while you were in England in connection with the second Round Table Conference, I ventured to express myself thus :—

“ I cannot say, Sir, how you always feel about it. I know that if you have embarked upon this big enterprise of the wholesale redemption of the Bhavnagar peasantry, you have done so after due deliberation and in full conviction of the righteousness of such a course and having done so I know that you are not one, who would waver or lightly turn back. But if I may make a personal confession, I must say that the magnitude of the undertaking, the contumacy of a section of the Kheduts like those one meets with in Lilia Mahal, the bitter and uncompromising opposition of a minority of Sowcars and the criticism—mostly uninformed—of friends and colleagues who ought to know better, all these at times induce a feeling of nervousness, giving rise to subconscious doubts and misgivings. So when I come across such views and opinions as are now contained in the enclosed cutting, they have on me a most reassuring effect ; for they bear independent testimony to the soundness and wisdom of the action taken by us.” The newspaper cutting referred to, you perhaps may remember, contained a report of a lecture delivered before the Calcutta University Institute by Mr. Naliniranjan Sarkar, President of the Bengal National Chamber of Commerce and also a member of the Government Banking Inquiry Committee. The whole lecture was a most powerful plea for urgent action being taken for redemption of the indebted Indian peasantry.

In reply to my above letter, you sent a characteristic reply from London from which I make no apologies for quoting the following more pertinent passages in full:—

“ I am not surprised at your nervousness in the midst of the opposition to the new experiment, I am trying in Bhavnagar. But after years of experience, I am convinced that if States and British India are to go quietly and peacefully through days of depression and financial stringency, as also through the disturbing days of rising agitation, the method that we have adopted at Bhavnagar is the only method for making a safe port. If the Kheduts are contumacious, it is because of their ignorance; if the Sowcars are uncompromising oppositionists, it is because of their selfishness; if uninformed friends who ought to know better, criticise the good work that we have taken in hand, it can only be because their friendship may be of a character, which cannot be called a true friendship. All eyes are on us. On our success depends the future fate of India. Small though the State is, and insignificant therefore the enterprise in one corner of that huge continent,—it has the seeds, which if they sprout into plant, will open many eyes, and many well-intentioned rulers and officers will welcome the experiment and imitate it. I shall not be sorry even for the failure, for it would be a failure in a good cause. But I am not afraid that we should fail, for ignorance and selfishness and unfriendliness of others should only girdle up our groins and give us greater courage towards success. I depend upon you as the Revenue Commissioner. I depend upon my Vahivatdars as your loyal subordinates, and if you, the small batch of officers only enter my heart and give your life to me in this connection, I have no doubt about it that the forces of opposition must succumb and that the sun of success must rise giving warmth to the depressed and afflicted peasantry, and when they see the light they

will make us all strong and strengthened, for, I am always reminded that it is the peasantry that is the State and the ruler who is the father of the peasants. You will remember Goldsmith's following couplets in the "*Deserted Village*":—

"Princes and Lords may flourish, or may fade ;
A word can mar them as a word hath made ;
But a bold peasantry, their country's pride ;
When once destroyed, I, can never be supplied."

"I shall not write more. I only write this to encourage you so that you may not lose heart, and if the Revenue Department, which is my hands, lose heart where would I be ? For one man cannot reach the whole cultivating class."

And if to-day, after a lapse of four years, this unique experiment has been brought to a successful termination, the result has been mostly due to your ever bright and unfailing faith and the generous and consistent encouragement and support you have always extended to those who were charged with the detailed working of the scheme.

Finally a word of acknowledgment is due to the members—both Officers and clerks—of the staff of the various Debt Redemption Committees. No one knows better than you how monotonous and exhausting was the work of the day-to-day examination and sifting of the Sowers' account-books. But fortunately we had in the Committees' staff, a band of trained workers possessed of special aptitude, and the patient industry and conscientious zeal, with which they devoted themselves to this work, have contributed not a little to its success.

I have the honour to remain,
Sir,

Your most obedient servant,

NATVARLAL M. SURATI,

Revenue Commissioner,

Bhavnagar State.

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EXPLANATORY NOTE.

The Bhavnagar State some time back set up an *ad hoc* Committee to inquire into the question of agricultural indebtedness, and the grave economic condition of the peasantry, that was revealed as a result of the Committee's investigations, was amply borne in upon the Darbar, and it was realized that unless grave agrarian trouble was to be risked in the near future, it was imperative to take immediate remedial measures to restore economic health to the debt-depressed and all but insolvent Khedut.

Among other measures adopted to relieve the situation, the Bhavnagar Darbar sanctioned a Debt Redemption Scheme depending for its application on the voluntary co-operation of the Sowcars and the indebted Kheduts. At first the money-lenders were chary of availing themselves of the benefits offered by the Scheme. But when they slowly realized that they would be able to recover, in cash and at one stroke, far more under the Scheme than they, if left to their own devices, could otherwise hope to collect in a number of years from their Khedut customers suffering from chronic indebtedness, they slowly came forward—first the Sowcars of one Peta-Mahal or sub-district and then of another sub-district, asking for the composition and settlement of their outstandings on the basis provided in the Scheme.

The Scheme was first applied to Lilia Mahal in April 1930, and slowly its operations were extended to other Mahals until the whole State has now been covered.

The nominal outstanding arrears shown as owing by the Kheduts in the Sowcars' books amounted, as the Redemption Committee have found, to Rs. 86,38,874 and the same have been compounded and compromised under the Scheme by the Darbar paying out on behalf of the indebted Kheduts a sum of Rs. 20,59,473.

redemption of the indebted peasantry has naturally given rise to.

The Darbar were not oblivious of the future risks, to which the poor illiterate Khedut was exposed at the hands of unscrupulous Sowcars always too willing to exploit them by advancing money and entangling them in fresh usurious transactions. Some protection against such future victimization is sought to be given by the Khedut Protection Act enacted simultaneously with the Debt Redemption Scheme. This Act is embodied as Appendix III hereto.

A third complementary measure adopted, and, that by far the most important, is the scheme of Gramya Panchayat covering all aspects of the Khedut's life and in fact aiming at the rehabilitation of the whole village life itself. (*Vide* Appendix V.)

A further elucidation of these various measures will be found in the course of the following pages. It may be only mentioned here that all these three measures hang together and they have been adopted simultaneously in the hope that their cumulative effect may render the farmers, who comprise 75 per cent. of the population of the State, more happy and contented.

As a result of the total redemption effected, there are to-day hardly any suits or execution proceedings pending against any Kheduts in the Civil Courts of the State. Litigation is always a fruitful source of no end of anxiety and expenditure, which have been all avoided by amicable settlement outside the Courts. Another immediate and undoubted benefit conferred on the Kheduts is the substantial saving in interest charges alone, which would have amounted to about Rs. 21,00,000 annually, calculating interest at the rate of 25 per cent., which is the ordinary rate the Sowcars levy, though cases of still more extortionate rates charged occur only too

frequently. In other words the Kheduts have had their huge outstandings of Rs. 86,38,874 compromised and compounded by payment of a sum, which is certainly not more than the annual interest charge, to which they were annually subjected for these arrears. The gain to the State is also not inconsiderable: for apart from redemption creating a debt-free and contented peasantry, an incidental result has been easier and better recoveries of the land assessment, and it was noticed that in spite of the heavy fall in prices, the Kheduts willingly and easily paid the full unit of current assessment and also something towards arrears even in parts of the State where the season was below normal and where recoveries would have fallen short by 4 annas under the old conditions, when the agriculturists were still weighed down by the burden of past debts.

It would not be out of place to mention here that nothing is closer to the heart of His Highness the Maharaja Sahab than the interest and well-being of his Khedut subjects, who form the backbone of the State, and one of his first acts on assuming full powers was to confer on the Kheduts the rights of sale and full inheritance in respect of their holdings. But even while His Highness was a minor, the thought of the Kheduts' well-being was not absent from his mind, and it was he who first inspired the idea of lightening the burden of the Khedut's debts and as a result, Rs. 33,00,000 of State arrears of Land Revenue were written off during the Minority Administration. Having thus set the example of remission of old State arrears, His Highness the Maharaja Sahab next appealed to Sowcars to help in the economic rehabilitation of the Khedut by accepting settlement of their outstanding claims on the basis provided in the Redemption Scheme, which was again to be financed by the State advancing the loans required for liquidation. It is satisfactory to note that the Sowcars have on the whole responded well and helped to make the Scheme the success it has been. His Highness the Maharaja Sahab did not make

an exaggerated claim, when, in the course of a speech he recently made on the occasion of the visit of the Hon'ble the Agent to the Governor-General, Mr. Latimer, he said, "I am by temperament rather reticent, and I believe I am trained to value action more than expression of good intentions." In the same speech His Highness the Maharaja Saheb further summed up his conception of true rural uplift in the following words :—

"If the object of rural uplift is to be really attained, two things should receive first attention :—(1) Relieving the cultivators from the arrears of State assessment and (2) Release from the crushing burden of private debts." What His Highness's Government have done in regard to the second subject has been attempted to be described in the course of the following pages.

BHAVNAGAR,
15th April 1934.

P. D. PATTANI,
President,
State Council, Bhavnagar.

REDEMPTION OF AGRICULTURAL INDEBTEDNESS IN BHAVNAGAR STATE.

SECTION I.

Preliminary investigation of the Khedut Debt Inquiry Committee.

The Bhavnagar Darbar's forcible attention was first drawn to the problem of Agricultural Indebtedness by a petition received in January 1922 from some Kheduts of Lilia Mahal. In this petition they complained about their desperately low and poor economic condition, which, they attributed to the monstrous rates of interest, commission, etc., levied from them by the local Sowcars. The then Revenue Commissioner made a preliminary investigation in the matter and reported that the allegations contained in the petition were only too true and, further, pointed out the urgency of some remedial action being taken to relieve the economically distressed Kheduts. Thereupon the Council of Administration appointed a Committee in June 1922, under the Chairmanship of Diwan Bahadur Tribhuvandas K. Trivedi, Member of Council, to inquire into the problem of Agricultural Indebtedness and suggest remedial measures.

Khedut
Inquiry Co
tee appoint

2. The Chairman first made a preliminary tour of some 22 villages in different Mahals, as a result of which he found that the complaints made in the petition of the Lilia Kheduts about the economic ruination, that was being wrought by the unscrupulous and usurious methods of the local money-lenders, were not a bit exaggerated, and the characteristics of the Sowcar's dealings with his Khedut customers detailed in the petition and the preliminary report of the Revenue Commissioner were with local variations met with everywhere.

Prelimi
Tour of
Chairman.

Comprehensive inquiry decided upon.

3. The alarming conditions thus revealed indicated the necessity of a thorough and comprehensive inquiry embracing the whole State, if the same was to serve a useful and practical purpose and reliable and adequate conclusions to be reached. So, it was decided to investigate, at least in a general way, the conditions prevailing in all the Mahals of the State.

How the Committee collected the statistics of individual indebtedness and other relevant information.

4. Figures of individual indebtedness of all the Darbari Khatedars were in the first instance collected and recorded by the local Thandars. To check and verify these figures, the Committee toured the whole State, visiting each and every village, where they met the Kheduts face to face and in their own homes, so to say. This was, in a way, the Committee's most important work, as it brought the members into close, intimate and direct touch with Kheduts and enabled them to obtain first-hand information. Besides checking, correcting, adding to or altering the figures of debts, etc., entered in the tabular statements prepared by the Thandars, the members of the visiting party subjected each individual Khedut in turn, to a little searching cross-examination, to elicit the nature of his debts, the occasion and purpose for which they were incurred, the interest, premium and other charges levied by the Sowcar, etc., etc. While this process of verification of the statements and examination of the Kheduts was going on, it was made a point to select a few typical cases of harsh and unfair dealings involving exorbitant rates of interest or other hard terms, and the same were gone into at leisure at the Committee's camp by sending for the Sowcars concerned and examining them and their account-books. Altogether the Committee examined in this way some 552 Sowcars.

Further, in most of the villages, two or more Kheduts of varying economic conditions were picked up, for preparing their family budgets roughly showing the produce of their respective holdings, the cost of cultivation (which includes the

assessment payable to the State), the proportion of the produce retained for domestic consumption and the price realised by selling the surplus quantity. A comprehensive questionnaire prepared by the Chairman was also filled in for substantially big villages, and this was done by meeting the leading Kheduts of the village in a group and putting questions to them.

Of course, in the very nature of things, one cannot always vouch for the accuracy of the debt-figures collected. But realising that the value of the Committee's conclusions would lie in the reliance, one could put on the returns of the debt figures, every care and safeguard was taken from the beginning to ensure their accuracy.

But in spite of every precaution taken, the Committee noticed in scattered places a tendency, at times induced by the Sowcar's efforts, to conceal the real position regarding indebtedness; and the suspicion could not be got rid of that Kheduts, who were really indebted, held reticence on the subject either under the Sowcar's instigation or under a false sense of Izat. But it should be added that if some Kheduts here and there kept silent or understated the amount of their indebtedness out of a sense of prestige or for fear of losing credit and social status or some other reason, there were not wanting instances, in which Kheduts somewhat exaggerated and overstated their debts, and that again perhaps at the Sowcar's instance, under false hopes of obtaining easy relief and redemption of debts, or from other equally inscrutable motives.

The Committee took every pains to remove false hopes or undue fears, if any, entertained by the Khedut; and out of respect for his susceptibilities and in order to put him at his ease and in a communicative frame of mind, he was, as already stated above, approached individually and separately, and asked to state his debts confidentially and in

private, whenever that course was thought necessary. And it was hoped that the first careful and patient preparation of the statements of debts by the Thandars and the subsequent verification by the Committee of the debt-figures of each individual Khedut, had reduced the scope for error to a minimum.

Amount of
indebtedness
found

5. The Committee found as a result of these elaborate investigations that out of about 23,000 individual holders, about 55 per cent. were free from debt, and the remaining 45 per cent. or about 10,000 Kheduts paying an annual assessment of Rs. 12,75,000 were indebted to the huge amount of Rs. 51,41,000 approximately.

One should not run away with the idea that the 55 per cent. Kheduts classed as debt-free were economically in a very wealthy and flourishing condition. Many of them were just able to pay their way and make two ends meet with difficulty, and the margin of saving being never great, two or more successive bad seasons would find them without anything left to fall back upon, and they were sure to be pushed over the brink, near which they constantly lived.

No credit: No
debt

6. Further, paradoxical as it might seem, the Committee came across numerous cases of Kheduts being free from debt, not because they had no pressing need to borrow, but because they were so poor and their credit so low that no Sowcar would care to lend them any money. The truth of the dictum 'debt follows credit' has been often noticed. But the reverse proposition is not always true. On the contrary, lower and less credit only spells the imposition by the Sowcar of harsher and more usurious terms for his loans. But extreme poverty and total absence of credit, while they accentuate the need of borrowing, often result in freedom from debt, thus partially establishing the reverse dictum "no credit: no debt." This paradoxical phenomenon of Kheduts being free from debt,

because none would care to lend them, should further warn us against basing any general inference of economic wealth and prosperity on the fact of 55 per cent. of Kheduts being classed as debt-free.

7. Of the 45 per cent. indebted Kheduts, about one-third were found to be indebted in sums not exceeding 2 years' annual assessment payable by them, and the rest were hopelessly indebted, a fair proportion owing arrears exceeding 10 and 15 years' assessment payable by them.

Indebtedness
corresponding
to assessment

8. Although the original causes of debt in the first instance might be the recurrence of bad seasons, the small margin of profit even in good years, undue expenditure on death, marriage and like occasions, there was little doubt, the Committee found, that the principal cause of the accumulation of debts and the main obstacle in the way of the cultivator's regaining his economic freedom were the peculiarly usurious and oppressive methods pursued by the Sowcars.

Real and
assumed
indebtedness.

Again the factor of undue expenditure on social occasions was likely to be overestimated as an originating cause of debt. No doubt on occasions of Ghargharna, (*i.e.*, remarriage), Ana ceremony, (*i.e.*, sending or bringing, for the first time, a married girl to her husband's house from her parental home), etc., sometimes very large—too large—sums are spent by Kanbi Kheduts. But otherwise, the sums ordinarily spent on such occasions are by no means such as can be called excessive, taken by themselves, and considering the cultivator's status in society and the inflation of prices around, *i.e.*, at the time when the Committee first investigated. But the expenditure of even moderate sums may be regarded by some as improvident in one point of view, when one remembers, that their expenditure necessitates on the cultivator's part, the incurring of fresh loans, which he may be absolutely incapable of liquidating, owing to the burden of past obligations.

But if the expenditure of such small sums necessitates resort to the Sowcar, that is only further fresh proof of the fact that the cultivator's surplus of saving from past years is too small to enable him to meet even the calls of social obligations occurring only occasionally, and which do not entail any very great outlay.

The facile assumption is often made that the pressure of land assessment is responsible for the Khedut's borrowings in not a few cases; but the greater incidence of indebtedness in the more lightly assessed Mahals like Daskroi and Talaja compared with the more highly assessed Mahals of Kundla, Lilia, etc., militates against such a hasty *a priori* assumption. The average assessment per Bigha for these four Mahals is Re. 1-2-0 for Daskroi, Re. 0-14-3 for Talaja, Re. 1-10-0 for Kundla and Rs. 2-1-4 for Lilia. But the ratio of indebtedness to assessment as found by the Committee varies inversely, i.e., the average debt per rupee of assessment is Rs. 8.7, 7.6, 2.9 and 3.6 respectively for Daskroi, Talaja, Kundla and Lilia.

These figures conclusively show that there is no correlation between debt and assessment. If that were so, the more highly assessed Mahals would show a greater amount of indebtedness and those lightly assessed would be found to be indebted to a lesser extent. But such is not the case. The conclusion is inevitable that the alarming extent of agricultural indebtedness is the result of the peculiarly grasping and extortionate methods of money-lending, of which the Khedut was the victim. This opinion is further reinforced, when one remembers, that the nucleus of the original advance in the majority of cases is seldom very large, and that the Sowcar's books show the borrowing Khedut in heavy arrears even after he has made large repayments on account from time to time, exceeding in many cases twice, thrice and four times the sum originally advanced. These heavy arrears shown as outstanding can only be attributed, as the Committee have found after examining numerous cases,

to the accumulation of interest, premium and numerous other varying charges, which the Sowcar's ingenuity sharpened by greed is so fertile in inventing.

9. It would be too long to enumerate and describe here in detail the various artifices and unfair devices resorted to by the Sowcar, to increase several-fold the original nucleus in as short a time as possible. Besides the overt additions of interest, commission and other charges, the outstanding accounts were further sought to be swollen by the Sowcar's irregular and cryptic methods of account-keeping, and ~~even worse~~, by his carelessness ^{and even worse} in acknowledging and giving credit for payments made on account. The Sowcar's various methods of dealings and the characteristic features of his system or rather no system of accounts have been noticed and commented upon at much greater length and in more elaborate fashion in the Evidence Volume, which summarises the more important of the statements of the large number of Sowcars examined by the Committee, and offers general remarks and, so to say, a running criticism on these statements.

Sowcars' characteristic methods of dealing and manipulations of accounts described in the Evidence Volume.

10. Only as occasion arises, reference will be made here to a few typical instances, though by no means always the worst, of the way in which the Sowcar seeks to victimize his illiterate, ignorant and debt-depressed Khedut customer.

Typical instances referred to.

First, mention may be made of the fairly prevalent practice of what is known as the Savaya system. This system means that a loan of Rs. 100 taken either in the month of Jeth or Ashad or even Bhadarva or Asho, for sowing, weeding, and other agricultural purposes, will have a quarter of that sum added to itself, by way of premium from the beginning and the augmented sum, viz., Rs. 125 mentioned in the bond as the actual advance, and the same made returnable in Magsar or Posh of the ensuing year. In other words the sum of Rs. 100 will earn in the short space of 4 to 8 months, an interest of Rs. 25.

In the result the rate of interest per cent. per annum will not be anything less than $37\frac{1}{2}$ to 75 per cent.

One would perhaps think that all Kheduts would not be subjected to these usurious levies and the Sowcar would only vary the terms of his loan in proportion to the risk and uncertainty of recovery, making them harder in the case of the poorer cultivators, whose credit was low; and it might further be supposed that only needy Kheduts would have to submit to any undue burden being imposed upon them to obtain a loan which they required. But contrary to expectation, the Committee found that the former practice to lend money to good Kheduts on interest at easy rates of 8 to 12 annas per mensem had almost entirely disappeared, and even good solvent Kheduts, against whom the Sowcar had never had occasion to resort to a law court for the recovery of his money could not obtain a loan except on the Savaya system described above.

Money - bonds
made repayable
by a fixed quan-
tity of Kapas

11. But if even a good cultivator has to submit to these exacting levies in the matter of his loans, contracted for strictly agricultural purposes, the poorer cultivators, who naturally form the majority, fare still worse, and, in their case, the conditions of borrowing are still more exacting. For, besides adding as usual a quarter of the sum actually lent by way of premium, the Sowcar stipulates to receive from the borrowing cultivators, instead of a money payment, a fixed quantity of Kapas in the ensuing harvesting season. To take a concrete illustration, if Rs. 100 is advanced in Ashad or Bhadarva, Rs. 125 as stated above would be shown in the bond as the sum actually lent, and the cultivator further binds himself to deliver, in the ensuing Kartak or Magsar, a maund of Kapas for every Rs. 2 due, *i.e.*, $62\frac{1}{2}$ maunds in all for the whole sum of Rs. 125. Further suppose that the cultivator fails to deliver wholly or partly the stipulated quantity of Kapas at the time agreed to, the result in most cases would be that the whole stipulated quantity of Kapas or the balance remaining due, as the case

may be, would be converted into its money value at the prevailing market-price, and a fresh bond passed for the same occasionally added to again by 25 per cent. For example, if in the case cited above, the borrowing cultivator is unable to deliver the whole of the $62\frac{1}{2}$ maunds of Kapas stipulated in the bond, and the prevailing market-rate at the time fixed for delivery is Rs. 8 per maund, which was too often the case in those years of boom prices, the cultivator will be called upon at the end of 4 or 8 months only to pass a fresh bond of Rs. 500 representing the money-value of $62\frac{1}{2}$ maunds of Kapas. In other words the Sowcar will have the satisfaction of seeing the sum of Rs. 100 originally advanced by him increased fivefold in 6 or 8 months only.

These stipulations for delivery of cotton in lieu of money are naturally much commoner in such cotton-growing districts as Lilia, Gadhada and Botad. Indeed it was noticed that the greed for cotton of some of the Sowcars in Gadhada Mahal would not let them grant any loans unless the same were stipulated to be paid for by the borrowing Kheduts; by a fixed quantity of seed-cotton from the next produce, calculated at a rate of price 50 to 100 per cent. less than either the prevailing or prospective rate of price of Kapas. It should be added that in some cases these forward contracts for the sale of cotton are more or less speculative; and the local agents of the Botad cotton-merchants egg on even those cultivators, who have no need to borrow to satisfy some immediate pressing domestic or agricultural want, to sell their cotton produce in advance; and all they receive, is a small amount by way of earnest-money. It need hardly be added that the Kheduts' hopes of reaping any inordinate profits are seldom realized. For as remarked in the notes of Evidence for Gadhada Mahal, "pitted against the knowing Sowcars fully in touch with the movement of cotton prices, the cultivator's chances of deriving any unexpected profits from such forward contracts are very small, while the risk of his losing the advantage of an unexpected

rise in prices is always present. As generally happens in such speculative transactions, the Khedut finds at the time of the harvest that he has oversold and is unable to deliver the stipulated quantity; and the Sowcar obtains a bond for the difference in the agreed price and the prevailing market rate."

Kheduts' need
for a little cash-
money exploited.

12. Though the speculative desire to make an unexpected gain was sometimes the motive behind such forward transactions, oftener than not, it was the Khedut's urgent need for a small cash amount, that was exploited and the sole inducement for such forward sale of cotton was to be found in the small cash sum offered as earnest-money at the rate of a rupee or two per maund of the stipulated cotton, and which sum went to meet some pressing necessity, such as paying the labour-charges of weeding or cutting and gathering the ripe crops, picking cotton or other equally urgent agricultural operation. As remarked in this connection in the course of the Committee's Report, "too often the Sowcar makes his business of money-lending ancillary to securing in advance, at as cheap a price as possible, the expected cotton crop of the Khedut debtor; and the latter, when he is either oversold as he often is or the crop yield does not come up to expectation, has to pass a bond for the money-price of the undelivered quantity of Kapas at the prevailing rate."

Atak or Pe-
nalty clause de-
scribed.

13. At times the Sowcar would not directly stipulate for repayment of loan by a fixed quantity of cotton, but the bond would include a time-clause and only failure to pay on the due date would entail liability to deliver the fixed quantity of Kapas as stated above. But this penalty or Atak clause, as it is called, was generally most rigorously enforced, and when once the Atak Kapas became due, even by the prescribed period being exceeded, as it too often happened, by a day or two only, the Sowcar gave no quarter but insisted on realizing his pound of flesh. This is none too strong language to apply

considering that the initial Savaya increase and the Atak clause combined often enabled the Sowcar to increase as shown above his original loan fivefold and more in six months and even less.

The hardship worked by the prevalent practice of advancing loans only on the stipulation of the same being repaid by Kapas at low rates often fifty per cent. lower than the market-rate was most forcibly brought home to the Committee in Tappa Patana of Botad, where while the general percentage of indebted Kheduts for the whole Tappa was less than 40 and the average indebtedness per Khedut was Rs. 232, some villages where the pernicious practice of stipulating for delivery of Kapas in lieu of money payment prevailed, showed 85 per cent. of the Kheduts as indebted, and the figure of average debt returned was as high as Rs. 525.

14. Again where the cotton-merchant also enjoys a monopoly of the money-lending business in a particular village, his position lends itself to double abuse. Not only is he able to secure in advance the produce of his Khedut customer, but his position as the village Sowcar gives him an advantage over other buyers, if there be any, and he can generally dictate his own terms and rates, and as might be easily imagined, the only limit to such dictation, where the parties are so unequally matched, is such sense of justice and moderation as the Sowcar might possess.

Thus the Khedut's dependent condition often prevents him from realizing the best price for his produce, which he otherwise would in a free open market. But if it is not always true that the Khedut sells in the cheapest market, it is not too much to say that the Kheduts—especially the poorer illiterate Kheduts of a backward class like the Kolis—generally are seen to buy in the dearest market, and it should be remembered that the Khedut is usually a buyer and only

Sowcar
of his po
money-le

once or twice in the year, a seller. It was noticed especially in the coastal areas that the poorer Kheduts made over to their Sowcar almost the whole of the produce of the soil immediately it was harvested, only keeping in reserve a scanty store of grain sufficient to last barely a month. The Khedut, no doubt, received credit for this in the Sowcar's books, but at a price, which was 25 to 30 per cent below the ruling market rate. But the contrary was the case, when the Khedut was the buyer and not the seller. For all articles of domestic necessity, which the Khedut buys, on credit, in small quantities, the Sowcar usually charged prices, which might be anything from 25 to 50 per cent. higher than the prevailing market-rate, and further, when at the end of 3 or 6 months, or very rarely a year, accounts were settled and a balance struck, a substantial sum, by way of interest and premium, was added, and a fresh Khata drawn up for the whole amount.

Even where the bond for the balance outstanding ostensibly provided for interest at a rate of 12 to 18 per cent. on the occasion of renewal, 50 per cent. and more were often added by way of interest, and the increased amount shown as principal in the new bond, the excess above the prescribed rate of interest being effectively concealed by fictitious credit and debit entries.

Again the Committee observed that the Sowcar, in making up accounts and adding interest, usually made no deduction for interim payments on account, and interest was calculated on all the debit entries for the full period of one year, irrespective of the different dates on which the borrowings may have been made. Some Sowcars entered the interest item in advance, simultaneously with the debit entry of the principal sum lent. The result was that when accounts were made up, at the end of the year, by adding up the debit entries, the interest items themselves also bore interest. In other words interest was added twice over.

In short, there is no end to the mischief wrought by the evil of the Sowcar combining the dual function of merchant and money-lender. The Committee found that even where the Khedut sold his produce to a third party, he was obliged to pay to his Sowcar a commission at a fixed rate of one anna per each maund of Kapas and grain sold. Where the Sowcar himself was the buyer, he did not always pay cash for the produce received, but very often misappropriated the price of the produce delivered to the adjustment of old outstandings without the Khedut's consent, and the result was that even for his immediate needs, which the Khedut would have otherwise been able to finance from the price of his produce, he had to incur fresh debts paying heavy interest and premium charges.

15. In Kadhara dealings, grain supplied in Shravan or Bhadarva and returnable during the ensuing Diwali harvest is subject to a 50 to 75 per cent. increase, and additional usual condition imposed being to commute an inferior and cheaper kind of grain like Juwar into the dearer Bajri or Bajri into wheat. This system becomes still more oppressive when the Kadhara dealings are practised on what is known as the Mol-Savaya basis. This means that where there is failure to deliver the stipulated quantity at the agreed time, the Kadhara bonds are liable to be renewed thrice in the year, i.e., at the times of the three harvests of Diwali, wheat and Chhasatia (irrigated Juwar crop raised in summer), every occasion of renewal being utilized to commute the cheaper grain into a dearer kind and again to make the original quantity returnable by a quantity a quarter or half as much again, and occasionally even by double the quantity.

Kadhara
plained.

Some Sowcars are observed to vary this Kadhara system in such a way that the quantity of corn advanced was first increased by 25 per cent., and the augmented quantity was converted into money at a rate of price 25 to 75 per cent. higher than the prevailing rate. In other words, both the quantity

advanced and price are liable to increase, which inflicts a double loss on the borrowing cultivator.

How the poor Khedut is victimized may be judged from the fact that the Committee came across instances of Sowcars being enabled by this vicious system of Kadhara to increase the original advance of corn 700 per cent. in five years, in spite of interim receipts on account equalling 125 per cent. of the original loan in the very first two years and 150 per cent. in the first four years. The Committee was, at first, at a loss to account for these huge additions. But it was ultimately discovered that what the Sowcar actually did was to add 50 to 100 per cent. to the quantity due for any year without first deducting therefrom, as he in all fairness should have done, the quantity delivered on account in that year. This accounts for the otherwise inexplicable large increase of 700 per cent. referred to above.

16. Jalap is only a variant of the forward cotton contract referred to above and is specially prevalent in the coastal Mahal of Talaja. What is particularly reprehensible about these Jalap contracts is that the indebted Khedut is induced to sell up his expected grain crops and occasionally also cotton, only a month or two, in advance of the harvesting season, not in return for any fresh cash advances, but only for credit given in adjustment of old outstanding accounts. Further the price allowed is anything from 40 to 100 per cent. lower than the price, which the Khedut would have realized, had the Sowcar shown a little forbearance and postponed recovery of old debts bearing interest, for two or three months only. Instances were also met with, where the period separating the date of the Jalap contract and the time for harvesting the prospective crop sold in advance was barely 15 days.

One can understand a Khedut selling up his crop beforehand for obtaining cash to meet some urgent agricultural need, but when he does so to pay an old debt outstanding from the

Forward con-
tracts called
'Jalap'.

past; the suspicion arises that such payment must be the result of either constant dunning or threat of recovering the debt by resort to court, or of execution of an existing decree, or again the payment might be the result of such subtle undue influence, as a creditor alone can exercise over a debtor, who is constantly in need of the services of the former and must maintain his credit and good faith at any cost.

To call a transaction of this nature, a regular contract of sale is rather a misnomer. This is merely the case of a Khedut parting with his crop under pressure, the strength of which can readily be imagined where the mutual relation is of debtor and creditor.

17. Where a Sowcar holds a decretal debt, he often succeeds, by merely flourishing the threat of execution, in making recoveries, which further are, against the express wish of the debtor Khedut, not credited under the decree, but credited towards other ordinary Khata debts, which thus get paid off without the Sowcar undergoing the trouble and expense of suing in a court of law. This is little short of misappropriation. It need not be pointed out that the debtor Khedut would naturally be anxious to first pay off a decretal debt and stave off execution and not a simple bond-debt.

Abuse of
Processes.

18. The Committee observed in places that originally good and solvent Kheduts, when they found themselves involved in indebtedness beyond a certain limit and had little hope of saving themselves from the gulf yawning before them, became desperate and developed a tendency to be contumacious. This destroyed their credit and capacity for further borrowing; and ultimately they were even driven out of their land; or if they continued to occupy and till the land, they did so for their master, the Sowcar. Of course such extreme cases were rare; and even where they occurred, they were not likely soon to come to the notice of the Darbar;

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for these would be tantamount to collusion between the nominal Khedut-holder and his Sowcar, as there is always present the risk of the Darbar resuming any Khata-land, which is the subject of an illegal and unauthorised lease or mortgage.

The restricted right of leasing granted in recent years to the Darbari registered Khatedars was intended to meet only the hard case of a poor cultivator, who had not the wherewithal to carry on agriculture and was therefore to be allowed to let his holding for a limited number of years, thus enabling him in the interval to improve his economic condition and resume agriculture on his own. But it was noticed that taking advantage of this right of leasing the Sowcar got the Khata-land transferred to him in payment towards old debts, and the evicted Khatedar was obliged to emigrate outside. Surely it was never in contemplation that the facility of leasing afforded for quite a different purpose would be thus exploited by the Sowcar to recover his old outstandings, even to the extent of ousting the Khatedar and driving him to a distant place to earn his livelihood. It need not be pointed out that if the leasing of land was allowed to flourish unchecked, there was some risk that in course of time many holdings would come to be occupied by non-agricultural classes, whose sole interest in the land would be to obtain as much rent as possible from the lessees. But this is only by the way.

Sowcars induced to expose true nature of their dealings under promise of privilege

19. The books of the Sowcars are so manipulated and there are so many collateral oral agreements, not included in the written contract, that it was next to impossible to extract the real truth regarding the nucleus of the original advance and the subsequent accumulations of interest, commission, etc. Still if the Committee have been able to find out the truth in the majority of the cases examined, it was only as a result of a preliminary order passed by the Darbar to the effect that all communications made to the Committee and all statements

prepared and depositions taken by it, would be treated as confidential and privileged, and the same would not be admissible as evidence in legal proceedings. It is certain that without this promise of secrecy and a preliminary assurance that the Sowcars' statements were to be considered as without prejudice to any legal proceedings pending at the time or that might be instituted in future, it would have been well-nigh impossible to elicit from the different Sowcars the very valuable, and, considering the very delicate nature of the subject and the Sowcars' interest in concealment, on the whole, full, fair and candid information, which they have supplied to the Committee regarding their methods of dealings with the Kheduts and of keeping accounts.

20. At times duplicate Khatas or Khatas for double the amount are alleged to have been obtained by the Sowcar as a mere threat to ensure timely recovery, the private oral understanding being that the fictitious bond or the bond for the augmented amount was not to be enforced and any payments made on account would be given credit for double the amount. But the only security the Khedut had against the Sowcar enforcing the fictitious claim in Court, was the latter's oral word, which had no legal force and about whose moral value the less said the better. In fact the Committee came across instances of such fictitious duplicate claims being actually decreed and even recovered under pressure of execution.

In brief the Committee saw that some Sowcars had almost systematized the art of cooking accounts and making false and fraudulent entries. To minimize the large additions of premium and interest, they were falsely described as fresh cash advances or mixed up with items of interest and premium. Renewed bonds often purported to represent new loans and, to make the fakement of a new cash loan seem more plausible, the Sowcar resorted to the artistic device of separating the old and the renewed bonds by an interval of a few days. In the Evidence Volume have been included, even at the risk of some

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repetition, instances of dealings of the same type, such as duplication of Khatas, entering in the bond double the amount due, misdescription of outstanding balances as fresh cash loans, etc., as otherwise it was not possible to convey an adequate idea of the general prevalence of the wrongful practices. What made these practices more reprehensible was that no uniform method of making fraudulent increases was observed, but each Sowcar had his own method and the same Sowcar also varied the method on different occasions and in respect of different Khedut debtors. The result was that from the mere accounts, which gave no trace of such increases and additions, the nucleus of the actual original advance could never be determined, and for doing so, one had only the oral uncorroborated testimony of the Sowcar to go upon. Of course, it goes without saying that even those Sowcars, who had the frankness and candour, under a promise of secrecy and privilege, to lay bare the real nature of their transactions before the Committee, would be altogether unwilling to do so in a court of law and thus discredit themselves and their account-books for all time. Matters would be further complicated as they often are, when either the Sowcar, who originally dealt with the Khedut and wrote up the accounts or the latter or both had died, and the question of separating the actual nucleus of advance from interest additions and other fraudulent increases, made in the first instance merely as a threat to ensure timely recovery, was in issue between the Sowcar's heirs and the Khedut or his heirs, and there was not available even the questionable guidance of the memory of either of the original parties for arriving at a correct decision.

Mention should also be made here of Sowcars keeping more than one bond-book relating to the same period, and it frequently happened that bonds passed by the same person and in the same year were entered in different books. The plausible excuse advanced for having separate Khata-books was that while one was detained in

court, the other book might be a handy convenience. But this explanation could not hold water, when the books showed two Khatas passed by the same party and bearing the same date and the suspicion of duplication of Khatas could not be avoided. But apart from the scope for deliberate fraud given by this practice of having more than one Khata-book, this loose method of entering Khatas relating to the same person was also not unlikely to lead to the unconscious victimization of the Kheduts, who have the misfortune to deal with such a Sowcar. After a lapse of a few years, even the Sowcar himself would not be able to tell without a laborious search among his books, the exact amount in which a particular Khedut was indebted to him on a particular date. Further when a Khedut made payment on account in a particular Khata, there was some risk of the same being credited in some other Khata, which was time-barred or very near being time-barred.

The Sowcar was not seen to be regular in keeping accounts, even when he was a mortgage transferee of fruit-trees like mangoes, though such a contractual relationship imposes a statutory obligation for good management and rendering of accounts. The sums obtained by the sales of the yearly fruit-produce were never credited at the bottom of the mortgage-deeds, nor in one place in one book, but the credit-entries were found scattered in more than one book. It was observed by the Committee that a creditor, who had obtained a mortgage transfer of fruit-trees, was always reluctant to restore them to the owner and, under one pretext or another managed to retain their possession for an indefinite period of time. In many villages, the Khedut had been practically dispossessed for all time of the mango trees, which their labour and care had helped to rear up. This shows how opportune is the enactment of the new rules relating to trees, which prohibits the transfer by mortgage or sale of trees standing on Khatalands.

Practical difficulties in enforcing a standard method of account-keeping.

21. The irregularities and the deliberate manipulations in the account-books suggested, in the Committee's view, the necessity of imposing on the Sowcars some standard method of keeping accounts, which would prevent the multiplication of books for the same year or period of years, and the entering of Khatas relating to the same debtor Khedut in different books. Where no journal was kept, and accounts of dealings were shown in a large book of Khatas only, there was little need to split up the transactions with a particular Khedut, under different Khatas, but should as far as possible be shown at one place only. But if the Darbar had so far refrained from undertaking legislation prescribing a standard method of account-keeping, it was not because they underrated the necessity of such legislation, but it was only due to a recognition of the practical difficulties involved in enforcing such legislation even when passed.

Once indebted always indebted.

22. It was obvious that once the Khedut was entangled in dealings of this nature, he would continue to be indebted to his Sowcar for all time. That this is by no means an exaggerated and overdrawn picture will be evident from the numerous instances of money transactions of this nature recorded in the depositions of the Sowcars themselves supported by entries from their books. The Sowcars' statements are summarised and reviewed in the Evidence Volume already referred to before.

Usurious dealings only too prevalent.

23. Nor should it be supposed that transactions of this nature are exceptional or isolated. They rather seem to form the rule. The whole atmosphere is so demoralized by the prevalent grasping methods of money-lending, that even where the cultivators lend and borrow *inter se* as they often do, the terms they impose on one another are hardly less exacting.

One did occasionally come across instances of a Sowcar here and there, who was fair in his dealings with the Kheduts. But these were so rare and isolated, as only to emphasize the general sombreness of the picture. But even granting that

it would be wrong to lump all Sowcars together, it is an indubitable fact that by far the larger majority are given to usurious practices and if they differ at all, they do so only in the degree of usury practised. As remarked in the course of the Committee's Report, "at one end, there are a few, perhaps a very few Sowcars, who are content with a moderate return on their advances, while at the other end, there are those who are most grasping and usurious and squeeze the Khedut at every possible turn, practically reducing him to the condition of a landless labourer, tilling the soil for the benefit of his master, the Sowcar. Between these two classes, there are all kinds of Sowcars, who practise usury and extortion in varying degrees.

Where the majority of Kheduts are involved in monetary transactions of this nature, there is small chance of their ever achieving redemption unaided. In their present circumstances, the only means wherewith they can hope to pay off the arrears of past debts is the narrow margin of profit left to the Kheduts. What is this margin? In ordinary years, the average net produce of a moderately sized holding after paying the State demand and defraying the cost of cultivation, is just sufficient to support the cultivator's family; and any balance of saving it may leave behind, if at all, is never very great—certainly not worth much more than a sum equal to the annual assessment of that holding. Of course in exceptionally good bumper years, when the prices of the agricultural produce are also ruling high, the net balance of saving, one may grant, would be much greater. But such years are few and far between, judging from the experience of the last one or two decades; and as a set-off against such exceptionally good years, one has to reckon with the frequently recurring seasons of short or abnormal rains.

24. So all things considered, one would not be far wrong, in estimating the average normal net gain of an individual Khedut at a sum equal to the yearly assessment payable by him to the State. If that be taken as a fairly correct estimate,

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it will be at once seen that the cultivator already indebted in a sum several times larger than the amount of the annual assessment of his holding, and further faced with the ever-recurring necessity of making fresh borrowings, is not only not in a position to achieve his redemption unaided, but has also his labour and what little surplus wealth he may be able to produce, permanently mortgaged to the Sowcar. The Khedut's unaided exertion to free himself from indebtedness may, therefore, be not inaptly compared to the hellish torments of Sisyphus, who no sooner had rolled up his burden to the top of the hill, than it fell down upon his devoted head with redoubled violence.

Khedut's pathetic but futile efforts to redeem indebted condition.

25. The Committee came across pathetic instances of Kheduts trying to seek relief from the pressure of indebtedness by parting with their all—the whole produce of the year as also their agricultural stock such as bullocks, carts, etc., which are expressly exempted even from attachment for decretal debts. One Sowcar was noticed to have received in the course of a single year, from five Khedut constituents of his, some 18 bullocks both young and fully-grown, 2 buffaloes and one cart besides large quantity of Juwar, Bajro, etc. Even where the Kheduts in their anxiety to be rid once for all of the burden of old debts hanging round their necks like a millstone had made such Herculean efforts practically reducing themselves to the condition of landless labourers, they still failed in completely extricating themselves from the clutches of the Sowcars, whose books continued to show them as still owing arrears. It was noticed that even the grasping Sowcar was at times moved to generosity and occasionally wrote off a portion of the balance remaining due, by way of grace as he said. But such magnanimity coming on the top of all such oppressive realization as detailed above, did not always seem spontaneous and could only be attributed to the Khedut's incapacity to pay any more—the last drop of blood having already been drained from him, including even his livestock of bullocks so necessary for cultivation. One almost wishes that some means could be devised to

prevent the private transfer of such agricultural stock, even as it has been deemed necessary to exempt them from attachment by a court, or the purpose of such exemption, viz., to ensure to the cultivators the undisturbed possession of their agricultural stock, would be defeated. But again the difficulties of enforcing such preventive legislative measures, even when enacted, seem almost insuperable.

SECTION II.

(1) *Committee's Findings and Recommendations.*

(2) *Relief Measures adopted.*

26. Altogether the Committee concluded, that unless outside help and relief were brought in good time to the Khedut already heavily indebted and almost insolvent, he seemed doomed, if not to extinction, at least to a whole life of what would practically amount to economic serfdom.

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quences.

The Chairman, in his minute submitted to the Council, admirably summed up the whole position, as follows :—

“Every profession needs capital, and so I do not think, a little indebtedness always argues an alarmingly poor economic condition ; but where a Khedut's condition on examination discloses a debt, of which the amount is always piling up and hence will be finally incapable of repayment, and, further, the transactions show intolerably usurious rates of interest, and frequent additions of premium, and other charges, such as Pāghadi, etc., the legitimate inference is that a chronic disease has crept in; and if the same is not carefully diagnosed and promptly treated, it will, doubtless, become the cause of the economic ruination of the indebted Khedut.”

In the same minute in describing the Khedut's reaction to the vicious economic system, of which he was the victim, the Chairman further remarks that "fortunately our Kheduts are meek and gentle. Had they anything of the martial spirit in them, they would have become mutinous long before. However, it would be no matter for surprise if things tended in that direction sooner or later, should there be failure to take timely remedial measures."

When Sir Prabhashanker D. Pattani, the President of the Council, was fully apprised of the alarming economic condition of the peasantry revealed by the Committee's inquiry, he got thoroughly roused and, with his characteristic imagination and sympathy and wide knowledge of affairs, at once realized that unless grave agrarian trouble was to be risked in the near future, it was imperative to take immediate remedial measures to restore economic health to the debt-depressed and all but insolvent Khedut.

Khedut Pro
tection Act pass
ed

27. One such remedial measure adopted was the passing of a Khedut Protection Act intended to afford the indebted Khedut relief both in regard to past usurious transactions and protection against their victimization in future. The Act is embodied herewith as Appendix III.

A further justification for such exceptional legislation, if one was needed, was provided by the fact that the Civil Courts, working under the ordinary law and procedure, were unable to give any relief to the oppressed Kheduts even in cases of extreme hardship, where there was a manifest suspicion of the Sowcar having taken undue advantage of the Khedut's indebted condition. The Sowcar being familiar with the practice and procedure of the Court, took care to so manipulate his books of accounts and obtain from the Khedut only signed and attested bonds, so perfect and flawless in a legal technical view, that the Court had no alternative left but to decree the amount sued for, unless it was to disregard and trample under foot the

sanctity of the written contract, on which civilized society mainly functions. The execution proceedings also worked no little hardship and oppression, and often when the decree represented a small sum, the expenses of the proceedings, regular and legal as also irregular and unacknowledged amounted to a sum as large as the one decreed. For whether the decree was for a large or small sum, the whole of the judgment debtor's standing crops in a field would have to be attached in execution of the decree, and a Chowkidar at the debtor's expense employed to watch over the crops, until the same matured and were cut and gathered. The ordinary machinery of the law was found to be totally inadequate to protect the Khedut, and indeed to be helping in his further exploitation and spoliation.

28. This Act is largely modelled on the Deccan Agriculturists' Relief Act. Like its prototype, the Act invests the Court with powers, to open up the accounts of transactions from the commencement and to ascertain and award the sum really due on account of principal and interest at a rate not exceeding 12 per cent. It also embodies the salutary rule of Dam-dupat. Such an enactment was overdue, there being no other course left open where the more advanced classes are found to exploit the poor as they have been seen to do here. Agreeing with the necessity of passing a law the Chairman of the Inquiry Committee remarked that even in advanced countries like England, Acts have been passed with a view to regulate the rates of interest not only for Kheduts but for all classes of the people. Sir Prabhashanker, however, felt that the disease would not disappear merely by enacting a new law. The following remarks of the Chairman of the Committee are interesting :—

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“The whole question is very complicated. The financial relations of the lender and borrower—a very delicate matter always—are involved therein. Kheduts do need the help of money-lenders every now and then.

The money-lender is a vital and indispensable factor in the village-economy and the Darbar cannot replace him. In this dilemma, I believe, the best course would be to take such steps as are indicated by the needs of the situation, ultimately with a view to restore both parties to their former position of mutual trust and service without exploitation on the one side and victimization on the other. Moreover, we cannot connive at the practices brought to light during the Committee's inquiry. If that be allowed, the condition of the Khedut would soon worsen and economic ruin overtake the whole class, which would again react on the money-lenders themselves and involve them in heavy losses."

This was fully realized by the merchants or at least by the better and more far-seeing section of them, and they even saw and acknowledged the necessity of some restrictive legislation, which would stop the present unchecked exploitation of the Khedut classes.

Debt redemption a necessary preliminary.

29. At the same time all agreed that legislation was at best merely a negative help, which was not adequate to meet the requirements of the case. As is well-known, the Deccan Agriculturists' Relief Act has failed to bring the needed relief to the Khedut class, at least not to the extent anticipated, and naturally there was an obvious limit to the good that could be achieved by a mere legislative measure, howsoever, well-intentioned and carefully elaborated such a measure might be. Nor would it be enough, the Chairman felt, to improve the economic condition of the poorer Kheduts and afford them facilities to obtain necessary finance with greater ease in the future. The Chairman finally clinched the matter by saying that "all these measures should be preceded by liquidation of their past debts." So the Bhavnagar Darbar along with the Khedut Protection Act simultaneously sanctioned a Debt Redemption Scheme, which would help wipe off at one stroke

all the outstanding debts of the Khedut and enable him to write on a clean slate once again.

30. This Scheme is published herewith as Appendix IV. Liquid
scheme
ed.

This was a scheme depending for its success upon the voluntary co-operation of the Sowcars and the Kheduts; and rule 1 of the Scheme provided that the Scheme would be applied in a big compact area, such as a Mahal or Tappa, where a majority of both the cultivators and Sowcars were prepared to settle up their accounts according to the terms and conditions laid down in the Scheme. Further, the scope of the Scheme covered all the customers of the same creditor and all the creditors of the same debtor. Again, as the redemption loan was to be advanced by the Darbar on behalf of the indebted Khedut and then recovered from him, though of course by easy instalments, the amount of such loan had necessarily to be limited according to the capacity and solvency of the Khedut concerned.

So according to the Scheme, the amount paid in composition was to be governed by a twofold limitation, *viz.* :—

(1) It should not exceed a sum equal to three times the annual amount of assessment payable by the debtor Khatedar.

(2) The total amount paid on account of a particular Tappa should not exceed four annas ($\frac{1}{4}$ th) of the total nominal outstanding debts of the Kheduts of that Tappa.

SECTION III.

Application of the Debt Liquidation Scheme.

Scheme first
applied to Panch-
talavda Tappa
under Mahal
Lilia.

31. The first to take advantage of the Redemption Scheme were the Kheduts and Sowcars of Panchtalavda Tappa under Lilia Mahal. Earlier than that, the Gadhada Sowcars were approached to accept settlement of their outstanding accounts with the Kheduts. But the attempt proved abortive, owing to the obstinacy and short-sightedness of the Sowcars, which prevented them from seeing that they would be enabled by such settlement to recover in cash and at one stroke far more than they could, if left to their own devices, hope to collect in a number of years from their Khedut customers, suffering from chronic indebtedness.

If the Panchtalavda Sowcars were more amenable, it was mainly owing to the persuasive efforts of Seth Permanand Hakani, a local Bania gentleman, who is both an agriculturist and a merchant, and who had considerable influence both with the Khedut and Sowcar classes. Mr. Hakani made the Sowcars realize the advantages offered by the Redemption Scheme; and the Khedut classes of course were only too eager to have the opportunity of achieving their economic freedom by having the crushing burden of old debts removed once for all. So a Committee was constituted consisting of two members, one drafted from the Judiciary and the other being a Revenue Officer of the rank of Vahivatdar. They were assisted by a staff of expert accountants. This Committee commenced examining the accounts of Sowcars in Panchtalavda in April 1930. Before the Committee finished Panchtalavda the Sowcars and Kheduts of the two remaining Tappas of Lilia Mahal came forward to have the Scheme extended to them.

Of course the examination of the complicated and oftener than not manipulated accounts of the Sowcar was laborious

and exhausting work, and progress in the beginning was necessarily slow. But with growing experience and familiarity with the nature of the work, the Committee felt its way more confidently and the pace of work quickened. The result was that while the Panchtalavda Tappa alone took the Committee five to six months to finish, the other two Tappas of Lilia Mahal were tackled in the comparatively shorter period of three to four months each. In Lilia Mahal alone, the Bhavnagar Darbar paid out to the creditors Rs. 2,63,777 in composition of their nominal debts of Rs. 9,98,384.

32. When the Lilia Sowcars accepting the Scheme were seen to receive in cash such large amounts, the distrust with which the Liquidation Scheme was first regarded began to disappear, and the Sowcars of other Mahals also began to appreciate the undoubted benefits of the Scheme. And so while the Committee was still engaged in Lilia Mahal, applications were received for extension of the Scheme to Umralla Mahal. To cope with this increasing demand, the original one Committee was increased to three, and more members from the Judicial and Revenue Departments were drafted for their constitution. Before Umralla Mahal was finished, the adjoining Gadhada Mahal, whose Sowcars first obstinately resisted the offer of amicable settlement, came into line, and the Committees released from Umralla Mahal were moved to Gadhada, and before the end of October 1932 the whole of Umralla and Gadhada Mahals were accounted for.

Sche
tended
Mahal

Two of the Committees then moved to Kundla Mahal and the third to Mahuva Mahal. At first only a limited number of Tappas of these two big Mahals asked for the application of the Scheme. But as the work progressed and large cash amounts were seen, being disbursed by the Darbar to the Sowcars in settlement of their old claims, all the other Tappas of these big Mahals asked for the extension of the Scheme. It was felt by the Darbar that any delay in settlement of the

debts after the Scheme had come into their willingness, might cause hard hip to both the creditor and debtor classes, and further swell the amount of unpaid indebtedness ultimately making it necessary to pay out a correspondingly larger sum in liquidation. So the three Committees were again multiplied to six in October 1932, and this further accelerated the pace at which the work was progressing. By the end of October 1933, the whole of the two big Mahals of Kundli and Mahura respectively comprising 7 and 5 Tappas, and also Botad Mahal consisting of 3 Tappas, were disposed of. By this time Mahals Victor and Talaja had fallen into line, and the last to follow were the Mahals of Daskroi and Shihor. The two Committees sent to Victor Mahal finished their work in about three months. And the two Committees working in Talaja Mahal accounted for its four Tappas in the course of six and a half months. The four Committees released from Mahals Victor and Talaja concentrated in Daskroi Mahal and its four Tappas were tackled in about five months. The work in Shihor Mahal was entrusted to the two Committees, who were last engaged in Botad Mahal. The three Tappas of Shihor Mahal were done by these two Committees in the course of six months.

Thus the operations of the Scheme, which commenced in April 1930 in Panchtalavda Tappa, were concluded in March 1934. The total period thus occupied comes to three years and eleven months. It should, however, be added that by far the greater part of the State—in fact 20 out of 37 Tappas—was tackled in the course of the last 12 or 14 months only, that is since the time when all the six Committees began working in full swing.

33. Two comprehensive Statements are attached herewith as Appendices I and II, showing by Mahals, assessment, area and number of total individual holders, the numbers and percentage of debt-free and indebted holders, the nominal

Tabular statements summarizing results of Committees' findings.

debts shown as outstanding in the Sowcar's books, the amount actually paid in composition, etc., etc. It will be seen that out of a total number of 27,898 individual holders, 15,405 or nearly 55 per cent. have been classed as free from debt and the rest, *i.e.*, 12,493 or 45 per cent. have been found to be indebted. Among the Khatedars classed as debt-free, are also included about 1,560 to whom the benefit of the Redemption Scheme could not be extended either because they carried on trade or other business in addition to agriculture, and if these are omitted, the number of debt-free Kheduts would be decreased and the percentage of indebted Kheduts would correspondingly go up.

34. The total amount of nominal agricultural indebtedness as shown in the Sowcars' books comes to Rs. 86,38,874. Both the number of individual holders and the amount of nominal indebtedness show an increase over the figures of the original Debt Inquiry Committee. This is, in the main, explained by the varying interval of 4 to 8 years, that elapsed between the time when the figures for the first Committee were collected and the time when the liquidation scheme came to be applied at differing periods in the different Mahals. In the fairly long interval separating the first inquiry in a particular Mahal and the actual application to it of the Redemption Scheme, there must have been naturally some splitting up of old Khatas, or on the demise of the ancestral holder, the subdivision of the Kahta land among the male holders while the holding continued to be nominally joint. This accounts for the increase of Peta-Khatedars or individual holders to 27,898 against 22,413 returned by the first Committee.

Discrepancy
between
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explained

Similarly the huge outstandings bearing usurious rates of interest and further liable, on renewal of the bond, to increases of 25 to 100 per cent. and more, must naturally tend to swell the balance outstanding. There may have been occasional repayments here and there, which should have, one would expect, gone to reduce the arrears. But the intervening years,

though generally not much below normal, were not also bumper years; and further the margin from which the indebted Khedut could make repayments in the last few years, was considerably diminished by the precipitate and continued decline in the prices of agricultural produce. No wonder, therefore, that while the first Committee returned the total debt figure of the Kheduts at Rs. 51,41,118, the investigation of the Redemption Committees undertaken after a lapse of years should have shown the amount of indebtedness to be Rs. 86,38,874. In other words there was an increase of more than 50 per cent. But besides the time factor accounting for the largest part of the increase in the total amount of nominal indebtedness, a portion of the augmented figure must also be attributed to the tendency displayed by some Kheduts at the time of the original inquiry to conceal the real position regarding indebtedness, either, as stated before, for reasons of prestige or for fear of losing credit or it may be at the instigation of the Sowcar. But the motive for concealment ceased to be operative when it came to actual composition and settlement of the debts. Indeed the creditor Sowcar was most interested in notifying all his outstanding claims, as it was an essential condition of the Scheme, when once it came to be applied, that all debts prior to the date of liquidation were to be considered to have been fully paid up and discharged and all civil remedies in respect of such debts were expressly barred. Were this not so, the Scheme would obviously fail of its purpose, which was nothing less than wholesale redemption covering all the Khedut constituents of every creditor and all the creditors of the indebted Khedut.

Conjectural
estimates of ex-
tent of indebted-
ness not reliable.

35. By the way, this variation shown between the figures of debt when it comes to actual settlement and the figures of the preliminary inquiry, a variation of nearly 50 per cent., should serve as a warning against making any conjectural estimate, as sometimes it is seen being done, of the extent of rural indebtedness, especially if such estimate is later to be

made the basis of a liquidation Scheme. It is no doubt a laborious piece of work to collect the figures of rural indebtedness; but the labour is worth taking if reliable data are to be made available.

36. The nominal indebtedness of Rs. 86,38,874 divided among 27,898 individual holders of the State gives an average debt figure of Rs. 309 per individual holder. The ratio of indebtedness to land assessment, which is Rs. 26,56,554 for the whole State is about 3 to 1. But if debt-free Kheduts are omitted, it is observed that 12,493 Kheduts paying an annual assessment of Rs. 13,79,696 owe a total debt of Rs. 86,38,874; and the average debt per each indebted Khedut works out to Rs. 691-7-11 and the indebtedness per rupee of assessment payable by each indebted Khedut is Rs. 6-4-2. These average figures, of course, vary for different Mahals, and the phenomenon of the more lightly assessed Mahals showing greater intensity of indebtedness, which was noticed by the first Committee and has been referred to before, was also revealed in the course of the investigations of the Debt Redemption Committee.

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Further the extent and intensity of indebtedness will be better appreciated, when one remembers that out of 44.8 per cent. of Kheduts classed as indebted, only 7 per cent. owe sums not exceeding 2 years' assessment, while the rest are indebted in amounts exceeding 3, 5 and 10 times and even more the assessment payable by them. The percentage of the latter is as great as 37.8.

Redemption loan compared to assessment payable by the indebted Kheduts comes to Re. 1-8-0 per rupee of assessment; and the loan debt distributed over the area occupied by the indebted Kheduts works out to Rs. 2-2-1 per Bigha.

37. It was not without some feeling of nervousness that the Bhavnagar Darbar embarked upon this unique enterprise, which was nothing less than a total and complete redemption

Whol
liquidation
unique
ment.

of the whole agricultural class, involving the advance, as now seen, of the huge amount of Rs. 20,59,473 in composition.

The heavy indebtedness of the agricultural classes is a chronic malady of almost universal prevalence in India, and various palliative and tentative measures have been suggested or applied to lighten the burden of the indebted Khedut and improve his financial condition. But the present wholesale experiment of total and complete redemption is unique and uncommon, and the enterprise on such a large scale is no doubt attended with some risk. But the risk, the Bhavnagar Darbar were convinced, was worth taking.

Burden of old debts robs cultivator of interest in his work, finally resulting in poor and indifferent agriculture.

38. It is an axiomatic truth that no industry can thrive without proper financing, and as agriculture is the largest industry in the country, its financing should be the first care of everyone interested in village uplift. But no Scheme of agricultural financing can be complete, which fails to envisage the problem of old debts, which bear usurious rates of interest—anything from 10 to 300 per cent. and even more as found by the Banking Inquiry Committee. While this dead-weight hangs like a mill-stone round the Khedut's neck, it is impossible he can have any interest in his work, and if he were less fatalistic and conservative than he is, he would not have been able to carry on as he has up till now. But if he has carried on, it is only as a listless and indifferent cultivator, who has no heart in his business.

As a newspaper writer, analysing the Khedut's reaction to indebtedness, says:—

“Agriculture suffers because, after all the human factor cannot be regarded as negligible and we cannot expect much from the labour and enthusiasm of an agriculturist round whose neck hangs the huge mill-stone of old debts.” This view is further reinforced by the sense of relief experienced by the redeemed Kheduts. As

Sir Prabhashanker wrote to a friend in reply to an inquiry received about the Scheme, "another favourable result noticed in the areas that have come under the operation of the Scheme is that where formerly the Khedut was a mere listless and indifferent cultivator owing to the ever-present fear of his creditor attaching his harvested crops, he is now seen to put more heart and industry in his work owing to the sense of greater security and relief brought about by the removal of the burden of past debts."

39. But one would think that the urgent need of debt-redemption in the case of the agriculturists was hardly an arguable point. Indeed everybody seems to admit the grave and menacing nature of the problem ; and this makes still more surprising the ostrich-like attitude too often adopted towards it. But as the Royal Commission on Agriculture, forcibly put it, "the worst policy towards debt was to ignore it and do nothing." The Indian Central Banking Inquiry Committee, as a result of its elaborate investigations formed the deliberate opinion that the problem of debt redemption is one "of supreme importance from the point of the economic prosperity of the country as well as for the purpose of stemming the growth of discontent among a large section of the population." Even political discontent in the country can be mainly traced to economic conditions of the rural population. As the Chairman, Diwan Bahadur Tribhuvandas, puts it :—

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"But I feel that the recent movement in politics has its origin in chronic indebtedness of the agricultural classes and their rack-renting by the superior holders to be met with everywhere. Any person can satisfy himself by visiting a village and examining the conditions of the poor classes. It is no wonder that political extremists easily find this a fertile field for their exploitation. It is, therefore, for the several Administrations to try to remove

these possibilities, by adopting all available means for the amelioration of the conditions of these classes. Our efforts are distinctly directed to this end, though we are no propagandists but silent workers in our own way and in our own spheres."

Unless therefore, the economic rehabilitation of the village cultivator is achieved betimes, the position which is grave and menacing enough in all conscience, will continue to worsen and ultimately might precipitate a country-wide cataclysmic disaster far more serious than any artificial political agitation, however violent and unscrupulous, could ever bring about. The only way to a peaceful administration lies through economic contentment; and relief of the burden of past debts of the village Kheduts—the backbone of the country—is the first and essential step in that direction.

Futility of
Rural Uplift
Scheme unless
preceded by
Debt Redemp-
tion.

40. Again as a correspondent in the *Times of India* recently remarked :—

"Next to education, the most acute problem of rural economy is as to how to remove the bonds of rural indebtedness that shackle Indian Agriculture. It is said that 'the Indian Agriculturist is born in debt, lives in debt and dies in debt.' Thus the redemption of debt is the fundamental condition precedent to the launching of any scheme of rural upliftment. There can be no denying the fact, therefore, that the further delay of village reconstruction or even the adoption of lukewarm measures would admittedly bring about disorder and anarchy of a more dangerous character than those emanated from bread-riots of the urban unemployment."

Repudiation
no remedy.

41. The situation in some parts has become so acute that the suggestion has been made in some quarters that, "the only method by which Agriculturists might be saved from utter ruin was to allow them to repudiate all their debt

explanation of this curious phenomenon is perhaps to be found in the following passage taken from a letter of Sir Prabhashanker Pattani to the well-known co-operator and public worker Mr. Devadhar, in reply to a letter of his inquiring about the Bhavnagar Scheme :—

“ I am no psycho-analyst : but it is no uncommon experience to find that when one is either unable or unwilling to do a thing, which is otherwise worth doing, one does not always confess one's inability, but by a curious psychological process, one is often apt to deceive one's self into the belief that the thing is after all not worth doing at all or the time is not opportune for doing it. At times, I feel that a similar mental process, though not distinctly recognised, is behind the non-possimus attitude adopted towards the problem of rural debt-redemption. While the sub-conscious mind admits the necessity of debt-redemption, the conscious mind is frightened by the seeming impossibility of the task and proceeds to justify to itself its attitude of inaction and hesitancy either by denying the problem or belittling its seriousness or again by conjuring up a picture of the same conditions being reproduced in a few years after the old debts have been once redeemed.” (*Ide* Appendix VII (4).)

Old debts main
stumbling block
to progress of
co-operative
movement.

43. Another result of not going to the heart of the problem and only keeping beating about the bush is to get side-tracked in sponsoring schemes of cheap and easy credit forgetting the heritage of old debts from the past. So where in total disregard of past indebtedness, attempts are made to unduly push forward co-operative Banks or other schemes intended to provide easy credit, they have not attained the measure of success expected, if indeed they have not totally failed. Any alternative scheme of providing necessary credit can have only a fair chance of success, after the problem of old debts has been successfully tackled once and for all.

indebted peasantry by advancing a loan of nearly Rs. 21,00,000, and, further when an enterprising Khatedar wants to go in for some costly agricultural improvement, such as setting up a pumping plant, the Darbar help him to do so by giving Tagavi advances at easy rates of interest.

How to go
about it ?

45. If the need for redemption is once conceded, the next question is how to go about the thing.

Redemption
by mutual con-
sent.

46. First an attempt should be made for liquidation to proceed on a voluntary basis. As Sir Prabhashanker has said in a letter written to a friend, "Mutual agreement and co-operation between the lender and the borrower is necessary for the permanent solution of the problem, while compulsion may not prove equally fruitful of success, if indeed it may not leave an after-taste of bad feeling and bad blood which may lead to future trouble between the two classes." (*Vide* Appendix VII (4)). Of course the Bhavnagar Scheme was not readily acquiesced in by the Sowcar: but persuasion and propaganda of the right type and, above all, the actual demonstration of the scheme in practice resulting in the payment of huge cash amounts and even reimbursing the Sowcars in cash for old irrecoverable debts, gradually diminished the volume and intensity of opposition and as the operations of the scheme were extended, it found increasing favour with the larger body of the Sowcars in the State, excepting for a little inevitable opposition from a section of the Sowcars, which continued well up to the last.

Limitation of
sum to be paid in
composition

47. Of course there can be no question of repaying in full all the nominal outstandings claimed by the Sowcar. In most cases, the nucleus of original advance is small and the swollen figures consist mostly of accumulations of interest, commission, premia, etc. Further, any sum advanced in composition of old debts must be determined with due regard to the capacity of the land holding and credit of the indebted peasant,

who is all but insolvent. In the Bhavnagar Scheme, the sum to be paid in redemption of the debt of an individual Khedut, it has been laid down, should not exceed an amount equal to three times the annual assessment payable by him.

48. If redemption is decided upon, the present is the most propitious time for undertaking the task. The margin of agricultural profits, from which the individual Khedut could hope to make repayment towards interest and principal is greatly reduced owing to the prevalent economic depression, especially in the prices of agricultural commodities, and the creditors unable to make any recoveries on their own, would be in a more amenable mood to agree to a scheme of composition, which holds out immediate prospects of payment.

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Moreover, it is being increasingly recognised that it will be most unfair and inequitable to insist on the full realization of fixed money-charges, such as the Kheduts' debts, owing to the Sowcar, incurred at a time when prices were ruling much higher. At present with the disastrous fall in prices, the Khedut is now required, in order to raise a specific amount, to part with double and more than double the quantity of his produce, which would have formerly sufficed for realizing the same amount. It is as if the rupee-measure has changed overnight, and the hardship caused is not less than would be the case, if a maund, which was supposed to weigh 40 Tolas, suddenly began to weigh 80 Tolas.

Again with reduced land values and low commodity prices, it would be much safer to correctly appraise and calculate the credit and capacity of the indebted Khedut for repayment of the redemption loan, without the risk of such calculation subsequently proving erroneous than would be the case in a period of boom, when land-values and prices were inflated, leading to an exaggerated view being taken of the Khedut's margin of profits, from which he was to pay the redemption loan.

Another factor tending still further to reduce the margin of the Khedut's profits was the greatly increased cost of cultivation due to increased labour-charges. It should not be assumed that with the decline in commodity prices, there has been a corresponding decrease in labour wages, which have rather tended to be maintained at a fairly high level. Indeed the Committee noticed that in several villages the wage earners popularly termed Ubhads, seemed to fare better than the regular Kheduts, a few Ubhads here and there being even able to advance money to Kheduts from their savings. If the advances required are not forthcoming from the State itself, the necessary funds in these times, when so much cheap and fluid money is going about seeking investment, could be easily raised at low rates of interest, by properly organised Land-mortgage Banks or similar organisations.

Redemption
would improve
Kheduts' credit.

49. Of course, it would be hazardous to make any forecast regarding the future after wholesale redemption has been once effected. Our experience in Bhavnagar is of far too short a duration to base any generalizations upon. But the very fact that the Khedut is free from the load of old debts, should improve his credit and enable him to obtain advances on easier terms, should he require them.

No question of
ousting the Sow-
car.

50. As stated before, the money-lender cannot be altogether replaced. Diwan Bahadur Tribhuvandas in this connection remarks in the course of a Council minute dated 15th January 1932, as follows :—

“As far as I understand, it is not our idea to destroy the relations between our Kheduts and their money-lenders, indispensable as they are in a village community. What we aim at, is to remove the present conditions and to restore the pristine purity of those relations. I would not mind, if our Kheduts incur productive debts even at 12 per cent. interest. That will not kill the goose. But we know these conditions do not exist at present between them, and the present unproductive debts of our Kheduts

are accumulations of ages of principal and the exorbitant rates of interest and commission charged thereon. The whole class is involved therein beyond redemption, and by our measures we desire to extricate them from their present embarrassments. The Khedut Relief Act, we have passed, would control the rates. But the object of redemption of these debts by Darbar loans is to lighten the burden of the past unproductive debts. Once this burden is removed, I believe, it would be possible to have the old relations re-established. The capacity of the Kheduts to repay the loan with reasonable interest would increase, and this condition would naturally reduce the present rigorous terms."

That it was never intended to oust the Sowcar class altogether, would be made still clearer from the following extract from the Report of the original Committee :—" It is obvious the State cannot replace all the Sowcars nor has the Darbar any intention of doing so. No one acquainted with rural life will grudge to acknowledge the important and useful part the Sowcar once played in the economic life of the village. At the same time it cannot be denied that of late years both the Sowcar and his Khedut customers have been greatly estranged, and the breach is daily widening. Certainly there is nothing left of the old personal touch and sympathy, which made their mutual relations so happy and useful to both sides. And it is because the Darbar earnestly wish that these old happy relations may be early restored to the mutual benefit of both the Khedut and the Sowcar, that this big experiment has been undertaken of wholesale and simultaneous redemption of all the Kheduts of the State, and surely it is not too much to hope that, with the Kheduts freed from old debts, the Sowcars would resume their old connection with them, charging only moderate rates of interest, and at the same time the old nexus of personal touch and sympathy will be restored."

51. That the Scheme was on the whole just and equitable and meant to deal fairly also by the Sowcar, should be evident

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from the fact that as the operations of the Scheme extended, the Sowcars themselves prayed for the application of the Scheme. This would not have been the case, were the Scheme only one-sided and not to the interest of the lender also.

After-effects of redemption.

52. The Bhavnagar Darbar are carefully watching the after-effects of the wholesale redemption of the Kheduts' debts. So far there has not been noticed any marked tendency to incur fresh debts in the redeemed Mahals, although nearly three years and more have elapsed in some cases. But we may grant that a certain percentage of redeemed Kheduts will again relapse in the old condition of indebtedness after a few years. But it is expected that the warning of bitter past experience will in the majority of cases act as an effective deterrent against the Kheduts repeating their past improvident practices.

Uncertain future no excuse for delaying necessary action.

53. But granting that the future is uncertain, that, it is submitted, should not be made an excuse for not undertaking or delaying action, whose necessity is otherwise plainly indicated. (*Vide* Appendix VII (2).)

But one may, in this connection, ask in the words of a newspaper correspondent:—"Would it be statesmanship to allow agricultural indebtedness to grow unchecked till the agriculturist became a free, enlightened, economic, human unit. It is a vicious circle, really, and a beginning has to be made somewhere in the reform of the conditions under which the agriculturist lives, moves and has his being."

Redemption saves huge interest charges.

54. One immediate and undoubted benefit conferred on the Khedut by the liquidation of his old debts is the substantial saving in interest charges, which he had to annually pay in cash or commodity, or failing that, which continued to be added to the balance outstanding. As the nominal outstandings amounted to Rs. 86,38,874, the saving in interest charges on the same would alone amount to Rs. 21,00,000 and more, calculat-

ing interest at the rate of 25 per cent., which is unfortunately the ordinary rate levied, though cases of still more extortionate rates being charged occur only too frequently. Indeed the Central Banking Committee has found that the interest charged by the village Sowcar may be anything from 10 to 300 per cent. and even more.

55. In short the Kheduts of Bhavnagar have had their arrears of debts owing to the Sowcars compounded and paid off by a sum of Rs. 20,59,473, which is certainly much less than what the Sowcar used to either actually levy in cash or charge to the Kheduts' debit account by way of interest alone every year. From the standpoint of the State, it may be added, if Bhavnagar's limited experience is any authority, that the State undoubtedly stands to benefit greatly by making its peasantry debt-free. If the Khedut formerly was not prompt and punctual in paying the assessment, and, as a result large arrears of Land Revenue piled up, it was as the Committee's investigations revealed, mainly due to the Khedut being head over heels in debt to the Sowcar. And though the Land Revenue is in theory a first charge on the land produce, the more vigilant Sowcar always succeeded in recovering his dues first. But that is now changed, and wholesale redemption of the peasantry has resulted in better and easier recoveries of land revenue, which would not have been otherwise the case in these days of abnormally low prices. It was noticed that even where the season has been below normal, and where formerly the Khedut weighed down by the burden of past debts, would have short-paid by 4 to 6 annas, the State has been able to recover the full unit of assessment and also something towards arrears. So even putting it on the low ground of self-interest, the State itself stands to gain enormously by redemption of its peasantry, and the favourable result in recoveries, though only an incidental advantage, is by itself, a sufficient justification, if one were needed, for redeeming agricultural indebtedness.

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Grateful Kheduts begin to pay towards redemption loan in advance.

56. It was found that in some places Kheduts have willingly deposited in advance large sums to set off against the loans to be advanced to them in discharge of their debts, even before the compounding loan had been paid to the Sowcar concerned. This shows that this attempt to make them debt-free is not entirely unappreciated by the Kheduts.

Indebtedness both a symptom and disease.

57. But it has been contended that indebtedness is a mere symptom : and mere symptomatic treatment cannot meet the needs of the case. This is no doubt true to a certain extent, but it is not wholly true. Argument by analogy or metaphor is never safe, and oftener than not proves misleading ; for one is apt to get a rather distorted view of the object sought to be explained thereby. It may be granted that the low economic condition of the Khedut and the narrow margin of profits of agriculture, which generally necessitate the incurring of debt in the first instance, are the root cause of the evil, of which indebtedness is a mere symptom. But if it is initially a mere symptom, the alarming way, in which the first small nucleus of indebtedness has shown a tendency to accumulate, in spite of repayments on account, often several times the original advance, makes of it a disease by itself, requiring independent treatment.

But, to get a clearer view of the whole position it would be well to vary the metaphor and inquire whether the removal of debris of an accident from the tracks of a Railway is not an essential preliminary in restoring the interrupted traffic. Of course the removal of the debris would not immediately result in resumption of the traffic, nor would relief from indebtedness immediately lead to economic prosperity of the Khedut. But it cannot be denied that the suggested action in both cases is an essential preliminary to clearing a road, hitherto, hopelessly blocked, and in that sense, settlement of debts must prove the longest step towards economic recovery of the indebted Kheduts.

Scheme can be devised, which will enable them to meet their liabilities without incurring further debt. It, therefore, becomes the duty of the Darbar—and I invite the co-operation of the merchants—to find out a way by which the whole village community can live in peace and manage their own village affairs. Thus and thus only can the seeds of self-reliance and mutual co-operation be sown."

The Committee themselves stressed the need of supplementing agricultural debt redemption by suitable measures, as will be seen from the following taken from the concluding Chapter of the Report:—

"It was felt and rightly felt that the problem of agricultural indebtedness is not one that can be rightly and separately tackled, without dealing at the same time with the whole economic life of the village. Indebtedness is, after all, a symptom, whose treatment alone cannot achieve the desired object, which is nothing less than the rehabilitation of the whole village life itself, and so the Panchayat is deliberately intended to cover more or less the whole field of village life."

Objects and
aims of Gramya
Panchayat.

59. What is sought to be achieved through these Panchayats will be clear from the following passages relating to the grant of Panchayat taken from the Committee's Report:—

"It is well-known that the old village communities having disappeared, with it, has also passed away the sense of corporate life. While personal hygiene of a kind exists, general sanitation worth the name is non-existent. Again the absence of corporate consciousness renders the villager helpless not only against thieves and dacoits coming from outside; but they are equally unable to keep under control the bad characters in their own midst, from whom hardly any village is free. These are a terror to

the whole village, and they make a hell of the life of the honest agriculturists by clandestine grazing, by cattle-lifting, by levying *Mosul* and by threat of arson, which is too often actually carried out to serve as an example and a warning.

“ But it is hoped that the grant of Panchayat will enable the village to effectively deal with all these evils. The grant of Panchayat will mean the practical transfer of the whole village administration to the villagers themselves with the minimum of outside interference. For it vests the Panchayat with the power to select and nominate persons of its own choice for the village offices of *Talati*, *Mukhi*, *Patel*, *Chowkidars*, etc., and the latter, therefore, will be real servants and not masters of the village, rendering better, more loyal and efficient service. This will also better enable the Panchayat to control and keep, on their proper behaviour, the bad and more intractable characters in the village. In an extreme case the village can also ask for the removal from their midst of a particularly desperate and dangerous character, who cannot be tackled by the ordinary process of law, because perhaps so great is the fear he inspires that no one will come forward to bear witness against him.

“ Where the ground is prepared and a demand made, freedom will be given within limits, to the village to determine its own method and procedure of revenue collection. It can also punish contumacy to the extent of forfeiture of land and auction a vacant holding. It can also build up a reserve from the savings remaining after payment of the *Darbar dues* and the reserve will be available for any common use, which may be decided upon by the Panchayat. Where the reserve is large enough, it can be even utilised for financing the agricultural needs of the *Kheduts*.

id in composition.

Kheduts whose debits were composed by advancing Redemption loan.												
debited in a sum exceeding ten years' assessment.				Not exceeding one year's assessment.				Exceeding one year's but not two years' assessment.				Exceeding two years' but not three years' assessment.
Number.	Assessment.	Amount of Indebtedness.	Not exceeding one year's assessment.			Exceeding one year's but not two years' assessment.			Number.	Assessment.	Amount of Loan advanced.	
			Number.	Assessment.	Amount of Loan advanced.	Number.	Assessment.	Amount of Loan advanced.				
22	23	24	25	26	27	28	29	30	31	32	33	
2,916	2,72,798 7 4	51,32,223	4,785	5,77,263 2 5	2,33,359	2,639	3,04,578 0 9	4,68,092	5,069	4,97,854 13 3	13,58,022	
213	16,506 5 1	3,68,848	222	13,572 11 7	6,200	138	9,214 12 9	14,819	447	30,350 11 5	82,897	
219	18,293 3 4	3,49,461	198	18,134 10 8	8,273	158	12,488 9 4	18,702	401	31,189 14 8	88,872	
103	22,706 10 2	3,85,202	530	73,609 3 6	30,232	371	47,893 9 6	73,935	315	37,418 6 5	96,269	
147	19,980 0 0	3,67,900	159	25,053 0 0	10,634	119	18,259 8 0	29,816	298	37,801 5 0	1,07,881	
313	31,787 6 0	6,32,999	163	25,801 14 0	8,092	139	18,337 0 0	29,003	568	62,193 14 0	1,76,242	
252	27,824 10 1	5,33,065	503	78,415 7 8	33,718	219	37,387 1 4	57,625	191	62,820 6 0	1,72,434	
530	62,581 15 9	10,79,601	1,194	1,08,912 0 10	70,464	631	83,910 15 6	1,27,584	937	1,13,519 14 11	2,99,373	
63	5,843 1 0	89,985	493	59,989 13 4	19,389	167	16,347 11 0	23,970	84	7,637 8 0	18,798	
465	37,904 8 8	6,49,175	939	87,372 11 8	35,022	454	44,091 2 3	65,049	792	65,484 15 7	1,79,033	
461	29,367 11 4	6,75,984	375	26,401 9 2	11,275	243	16,027 11 1	27,589	766	40,437 13 3	1,36,221	

APPENDIX III.

The Bhavnagar State Kheduts' Protection Act.

Whereas it is expedient to prevent the money-lenders from taking undue advantage of the illiterate and indebted condition of the agricultural classes, it is hereby enacted as follows :—

Pream

CHAPTER I.

PRELIMINARY.

1. This Act may be called 'The Bhavnagar State Kheduts' Protection Act,' and it shall extend to the whole of the Bhavnagar State from the date of its publication in the Darbar Gazette.

Short
commen
and exte

NOTE.—Section 10 of this Act shall also apply to civil suits pending in Courts on the date on which this Act comes into force.

2. If there is anything in other Acts now in force, repugnant or contrary to the provisions of this Act, then those Acts shall not apply to that extent to the provisions of this Act.

Repug
Acts in

3. Unless there is something repugnant in the subject or context,—

Constr

(a) "Agriculturist or Khedut" shall mean a person, who, residing within the limits of the Bhavnagar State, by himself or by his servants, earns his livelihood wholly or principally by agriculture carried on as Khatedar (registered holder) or Sub-sharer in the Darbari Khata land (registered holding). Such a person shall be deemed to be an agriculturist even if he carries on agriculture in other Mulgiras or Barakhli land along with the Darbari land, and the word "Agriculturist" shall also include his sub-sharers living as members of a joint family along with him.

Agricu

NOTE.—An agriculturist, who having first obtained the necessary sanction, has leased his Darbari land to others for agriculture, shall not thereby cease to be an agriculturist within this definition.

(b) "Money" shall be deemed to include agricultural produce, implements and stock.

Money.

(c) "Standing Crops" shall include crops of all sorts attached to the soil, and leaves, flowers and fruits upon and juice in trees and shrubs.

Sta n
Crops.

CHAPTER II.

Of Kinds of suits and place of suing according to this Act.

Application of
this Act.

4. The provisions of this Act shall apply to :—

(1) Suits for an account instituted by an indebted agriculturist according to the provisions of section 5. and

(2) Suits for the recovery of money alleged to be due to the plaintiff creditor

On account of money lent or advanced to or paid for, the agriculturist defendant, or as the price of goods sold, or on an account stated between the plaintiff and the defendant, or

On a written or unwritten engagement for the payment of money not herein before provided for.

Agriculturist
debtors may sue
for accounts.

5. Any agriculturist who owes any debt to his creditors as shown in sub-sec. 2 of Sec. 4. may sue for an account of such debt and of money paid by him to the creditor, and for a declaration of the amount, if any, still payable by him to the creditor.

Place of suing.

6. Subject to the pecuniary jurisdiction of Courts as provided for in other Acts, suits to which the provisions of this Act apply, shall be instituted in a Court within the local limits of whose jurisdiction the agriculturist, whether he be plaintiff or defendant, resides.

NOTE—Every such suit, in which there are more than one agriculturist as plaintiffs or defendants, who reside within the local jurisdictions of different Courts, may be instituted, with the leave of the Court, in any of such Courts.

CHAPTER III.

Of hearing of suits according to this Act.

Summons to
be for final dis-
posal of suit.

7. In every case in which it seems to the Court possible to dispose of a suit at the first hearing, the Summons shall be for the final disposal of the suit.

Oral evidence
admissible not-
withstanding
written agree-
ment

8. In suits, to which the provisions of this Act apply, the Court shall, notwithstanding anything contained in the Evidence Act or in any other law for the time being in force, have power, in order to inquire

into and determine the real nature of any transaction between the agriculturist and his creditor, to admit evidence of any oral agreement or statement pertaining to such transaction, even though the transaction has been the subject of a written agreement.

9. In any suit to which this Act applies, the Court, whether the amount of the creditor's claim is disputed or not, shall examine both the plaintiff and the defendant as witnesses and shall enquire into the history and merits of the case, from the commencement of the transactions between the parties, out of which the suit has arisen, first with a view to ascertaining whether any fraud, mistake, undue influence or any such thing has been practised upon the agriculturist-party, and; secondly, with a view to taking an account between the parties in manner hereinafter provided.

Parties to be examined and history of transactions with Agriculturist debtors to be investigated.

NOTE.—It is not to be understood that it is compulsory to examine the plaintiff and the defendant as witnesses according to the provisions of this section, even when the Court, for obvious reasons, deems it unnecessary so to do. But the Court shall in that case record its reasons in writing.

10. When the Court inquires into the history and merits of a case from the commencement of the transactions between the parties, in accordance with the provisions of Section 9, it shall

Mode of taking accounts.

notwithstanding any agreement between the parties as to allowing compound interest and,

notwithstanding any statement or settlement of account or any contract purporting to close previous dealings and create a new obligation,

take the account according to the following rules:—

(1) The account shall be inquired into and ascertained from the commencement of the transactions to the date of the suit;

(2) Separate accounts of principal and interest shall be taken;

(3) In the account of principal, there shall be debited to the debtor such money as may from time to time have been actually received by him or on his account from the creditor, and the price of goods, if any, actually sold to him or on his account by the creditor;

NOTE.—(1) Care should be specially taken that Vata or such other item, if any, added to the money actually advanced, or to the price of the goods actually sold, shall not enter into the account of principal.

- (2) When the price of grain or any other goods is to be debited or credited, it should be debited or credited, as for grain, having regard to the rates of price published in the Darbari Gazette of the time, and as for other goods having regard to the market rates prevailing at the time.

(4) Interest accrued due should be kept separate and special attention should be paid to the fact that interest does not get included in the principal ;

(5) Simple interest only shall be allowed at the contract rate, but more than 12 per cent. shall not be allowed ;

(6) Interest to be debited monthly : that is interest only on the balance of principal outstanding at the end of a month shall be computed from the beginning of the next month ;

(7) All money paid or goods delivered by or on account of the debtor to the creditor or on his account and all profits in the form of Vataf of Kothli-chhodaman, (be it in cash or goods) and other advantages of every description, received by the creditor from the debtor in the course of the transactions, shall be credited, first, in the account of interest; and when any payment is more than sufficient to discharge the balance of interest due at the time it is made, the residue of such payment shall be credited to the debtor in the account of principal.

(8) The accounts of principal and interest shall be made upto the date of instituting the suit, and the aggregate of the balances (if any) appearing due on both such accounts against the debtor on that date shall be deemed to be the amount due at that date.

Damdapat.—But if the balance appearing due on the interest account, exceeds that appearing due on the principal account, double the latter balance shall be deemed to be the amount then due and, that amount only, the Court shall decree.

Regarding
former decrees

11. In regard to decrees standing against the agriculturist when this Act comes into force, and decrees included in other debts, when they come before the Court in execution or in a suit, account should also be taken of such decretal debts in accordance with the provisions of Sec. 10. In taking such account, if it appears to the Court that the transactions which have led to the passing of the decrees, are a part and parcel of other transactions entered into between the parties, then

the whole of the transactions should be inquired into, as if the agriculturist has instituted a suit for taking accounts in accordance with the provisions of Sec. 5; and the amount remaining due by the agriculturist should then be ascertained. But the ascertainment of such amount, shall not, except under circumstances mentioned in Sec. 12, entitle the creditor to realize from the agriculturist debtor any sum in excess of the balance due under the decree, which, on coming before the Court had led it to order the taking of accounts in accordance with the provisions of this section.

12. (1) In suits for account according to Sec. 5 and at the time of taking accounts according to Section 11, besides ascertaining the amount remaining due by the agriculturist, the Court has power to direct that such amount shall be paid by instalments with or without interest. But if in the account upto the date of the institution of the suit the interest accrued due is equal to the amount of the principal, the Court shall not direct instalment with interest.

In suits according to section 5 and section 11, instalments may be granted in the decree.

(2) When the Court has directed payment of the amount by instalments according to sub-section (1), the agriculturist-debtor may pay, into Court, the amount of each instalment, as it falls due, in default whereof, execution of the decree may be enforced by the creditor in the same manner as if he had obtained a decree in a suit to recover the debt.

13. Where the Court awards interest, if at all, from the date of the suit to the date of the decree and from the date of the decree to the realization of the amount due, it shall not award more than 6 per cent interest.

Interest after the date of decree.

14. The Court may at any time direct that the amount of any decree passed under this Act, or the amount ascertained due after proper enquiry according to Section 11 into the decrees passed before this Act, shall be paid by instalments with or without interest.

Power to fix instalments in execution.

15. The interest to be awarded under this Act shall be simple.

Simple interest to be awarded.

CHAPTER IV.

MISCELLANEOUS.

- Suit to include arrears. 16. Where the creditor files a suit, such suit shall include all arrears of debts due to him by the agriculturist defendant.
- Re : court fees. 17. A suit by an agriculturist debtor shall be exempt from the payment of Court-fees. When the suit is by a creditor, he will at first be liable to pay the Court-fees, according to law, but the amount of Court-fees upon the sum decreed will be remitted to him.
- Re. Proof of payment and adjustment. 18. The agriculturist debtor shall be at liberty to prove any payments made by him towards the decree, even though such payments have not been certified in Court according to law; and he shall also be at liberty to prove even such payments as are made after this Act comes into force.
- Production of books of former accounts. 19. If the Court is satisfied that the creditor intentionally abstains from producing books of accounts of previous transactions, it shall dismiss the suit to that extent. If the Court has reason to suspect that the creditor does not intentionally produce books of accounts, one half of the balance due on the earliest account produced, shall be counted as principal but if the Court is satisfied that the debtor has received full consideration and that the accounts produced by the creditor are trustworthy, then the full amount may be awarded even in the absence of previous accounts.
- Power to make rules. 20. With a view to carry out the object of this Act, the Darbar may, from time to time, make, in conformity with the provisions of this Act, such rules, as are deemed to be necessary, in regard to the manner of taking accounts and other matters.

APPENDIX IV.

The Khedut Debt Redemption Scheme.

COUNCIL RESOLUTION No. 219.

A Committee was appointed to enquire into the indebtedness of the Darbari Kheduts of this State. As a result of the enquiries made by this Committee, it has been found that the terms of dealings between the merchant, creditor and the Khedut debtor were as a rule fixed by taking undue advantage of the ignorance and need of the Kheduts. Similarly the account books of creditors have been found to be containing many irregular and suspicious entries. So with a view to improve this state of thing, and to place the relations between the creditor and the debtor classes on a purer and better footing and also, to enable the latter to recover the monies advanced by them at reasonable rates of interest, the Darbar have considered it expedient to draft a bill called the Agriculturist Protection Bill and to publish it in the *Darbar Gazette* by Outward No. 1179, dated the 4th October 1929, for the information of the public and for giving them an opportunity of offering their views; and after taking into account what they have to say in the matter, such action as is thought necessary and proper would be taken. But in the meantime the Darbar desire to liquidate the past debts of the Kheduts by advancing loans to each individual Khedut at easy rates of interest, if such liquidation is possible and if the Sowcars are prepared to accept the actual principal originally lent *plus* interest at a moderate and equitable rate. Now, therefore, it is considered expedient to order as under :—

1. If a majority of the Kheduts and Sowcars of any Mahal of this State jointly apply, expressing a desire to avail of this liquidation scheme, the Darbar will be pleased to favourably consider such application.

2. Upon such an application being made by both the creditors and debtors, the Darbar will appoint a Debt Liquidation Committee as under :—

(a) This Committee will consist of two Darbari Officers, of whom one will be drawn from the Revenue Department and one from the Judicial Department.

- (b) The creditors of the Mahal, whose outstanding accounts with the Kheduts are to be liquidated, will nominate two respectable Panch, who will be appointed to the Committee as members representing the creditors.
- (c) The Darbari Officers mentioned in sub-clause (a) and the Panch on behalf of the creditors mentioned in sub-clause (b) will jointly co-opt one or two respectable persons of the village in regard to which the work of liquidation is taken in hand.

3. When this Committee will take in hand, the work of liquidation in respect of any village, all the creditors and all the debtors of that village shall give an undertaking to the Committee to the effect that the awards of this Committee shall be binding on both the parties. Those, who refuse to do so, will be debarred from the benefit of the liquidation scheme.

4. All debts whether decretal or attested by a bond or otherwise due by all the debtors of every creditor and to all the creditors of every Khedut debtor upto the date of the commencement of the work by the Committee shall be included in the liquidation scheme and unless this is done, the work of liquidation shall not proceed any further.

5. This Committee shall, having regard to the statement of objects and reasons accompanying the Draft Agriculturists' Relief Bill published in the *Darbar Gazette*, examine accounts in accordance with Section 10 of that bill and fix the amount of debt outstanding.

6. If the total amount, that may be awarded in satisfaction of all the debts of any Khedut exceeds a sum three times the amount of the annual assessment payable by him, then the latter sum only shall be rateably distributed among the creditors, and the debtor Khedut shall be discharged in respect of the balance remaining.

7. Where the total amount adjudged, under clause 6, to be given to the creditors on behalf of the indebted Kheduts is within the limit of a certain anna proportion to be fixed by the Darbar of the nominal arrears outstanding in the books of accounts of the

creditors, the Darbar shall undertake to disburse such amount ; and always bearing this limitation in mind, the creditors and the debtors, will, the Darbar hope, co-operate in carrying out the work of liquidation.

8. The Committee shall prepare a statement showing the names of each individual Khedut debtor together with those of his creditors and the amount proposed to be awarded in liquidation within the limits prescribed in clauses 6 and 7, and shall then request Darbar's sanction to the statement thus prepared.

9. If this statement is considered as fit to be sanctioned, the Darbar will order advances, to be made on behalf of the Kheduts concerned, of the sums shown in the statement at a rate of 4 per cent. per annum simple interest, and the Committee shall then disburse the respective amounts to the creditors, after first obtaining a discharge from them.

10. After liquidation has been effected in pursuance of this Resolution, all debts of a date prior to the date of liquidation shall be considered to have been fully paid up and discharged, and no suit shall be entertained in any court of this State in respect of any such debt.

11. For the recovery with interest of the sum, which the Darbar may have advanced on behalf of any Khedut under clause 9 for the liquidation of his past debts, the produce of such Khedut shall be brought over to the Darbari Khalawad, and, after setting apart the State's share that would be due under the Bhagbatai system, the Darbar shall first deduct from the sale proceeds of such share, the amounts due on account of the current year's assessment according to the Nam fixed as also the Tagavi loans falling due and then apply the remaining balance towards payment of the interest and principal of the Redemption loan advanced on behalf of the Kheduts and this shall be done from year to year until the whole of the amount due on account of such loan is recovered in full. The Khedut's share of the produce will be left to the Khedut and this will enable the Khedut to maintain himself with ease. Any Khedut, who has a bumper crop and who desires to reimburse in full the loan advanced for liquidation of his past debts, will be free to do so.

12. Any new point arising during the proceedings of the Committee appointed for the work of liquidation, which cannot be elucidated by reference to the provisions of this resolution, shall be referred by the Committee to the Darbar for necessary orders.

This resolution shall be published in the *Darbar Gazette* for the information of all concerned.

St. 1985, Ashwin Sud 2, Friday.

Dated 19th October, 1929.

By order of the Council of Administration.

HARGOVIND MANISHANKER

Secretary.

APPENDIX V.

Regarding the Establishment of Village Panchayats.

COUNCIL RESOLUTION No. 226.

In order to interest the people in matters of common well-being such as Village-protection, etc., and also to help them to jointly work for and solve without outside aid, questions touching their own common interest, and also to enable them to manage their own affairs, the Darbar desire to establish Gramya Panchayats in the villages; and for this purpose the following tentative rules are propounded :-

1. Where a demand is made by the people of a village for the establishment of Gramya Panchayat in their village, the Darbar will take necessary steps to do so.

2. The Village Panchayat, which may thus come to be established, shall not consist of less than 5 Members, from among the leading Members of the Khedut and other sections of the village community, who are nominated by the village people as a whole.

3. In addition to the Members nominated as above, the Darbari Revenue Patel and the Mukhi shall be *ex-officio* Members of the Panchayat. But any such Mukhi or Patel is liable to be changed or replaced at the instance of the village-people, provided there are valid reasons for so doing.

4. On the expiry of the term of office of the Members so appointed, which is fixed at 3 years, fresh nominations will be made and at the end of each successive 3 years, a new Panchayat will be appointed, from among the leading men chosen by the village.

5. In the event of a vacancy occurring within the period of 3 years, the person, whose name is proposed by the village-people, will be appointed to such vacancy. But pending such appointment, the remaining members shall carry on the work of the Panchayat.

6. The Panchayat shall have power to employ any person as Talati, who is fit to assist them in the work of the Panchayat. But the Darbar shall defray the costs of his pay, which shall be fixed with due regard to the assessment of the village. Necessary arrangements will also be made,

them, as Thandars do, in accordance with the rules and regulations in force at present. The Panchayat shall be liable to pay to the Darbar, according to instalments prescribed and on due dates, the amount of assessment payable under the current settlement or as may be fixed hereafter at a revision settlement. But the amount so payable shall be increased or decreased, when and according as any new land is leased out for cultivation or land paying full assessment is transferred to wasteland or any Sudharavarad or Rajhak land reverts to the State and is given over as Darbari assessed land.

13. When any Darbari Khata holding falls vacant, the Panchayat shall have power to auction the same and appropriate the Sukhadi amount that may be realized at such auction ; but they shall instead be liable to pay to the Darbar the average annual Sukhadi amount realized during the past 20 years. The Sukhadi of Padtar land rented for cultivation shall also be fixed on the same principle ; but the renting of such Padtar land shall be subject to the previous sanction of the Darbar.

14. The Sudharavarad and other levies payable by the holders of Bhayat, Mulgiras, Sudharavarad, Rajhak or other alienated land shall continue to be recovered direct by the Darbar as at present.

15. The land revenue dues shall be payable to the Darbar according to the Pratbandi system at present in force. However, if the Panchayat, for their internal convenience, desire any change in the system, they will be allowed to make such a change subject to the previous sanction of the Darbar.

16. When in a good or bad year, an anna levy is fixed for other villages of the Mahal, the Panchayat will also be entitled to pay assessment according to the Nam fixed for the village.

17. A statement, showing the amounts outstanding in the village before the grant of Panchayat shall be prepared and handed over to the Panchayat, which shall recover the same as also the arrears accumulated in subsequent years, from the excess levy that may be ordered to be collected in a good year over and above the assessment. The amount so recovered shall be paid to the Darbar.

18. Tagavi advances under the existing rules shall continue to be given to the Panchayat Village if there is a demand for them.

Betha-khata book, Rojmel, Ledger, Pahanipatrak, Receipt books, etc., and the books, which are stamped at present, shall continue to be so stamped.

25. The Darbar shall cause the emoluments of Patel, Mukhi, as well as the Haks of Mulgirasias and others to be paid, through the Panchayat, to the parties concerned.

26. The Panchayat shall have power, after obtaining the previous sanction of the Darbar in that behalf, to remove any person from the village, if they think it proper so to do, in the interest of the peace and general security of the village.

27. If the Darbar are properly satisfied with the Panchayat administration of any village, the Darbar will take necessary steps to delegate, to the extent they think proper, to the Panchayat, powers under the Civil Procedure Code to hear money suits upto a prescribed limit, as also powers under the Cattle Trespass Act and the Indian Penal Code, to try petty cases of theft and mischief.

28. In a village where the rights of ownership and sale have been conferred, the Chaauth cess payable at the time of transfer of ownership and the ground cess payable for acquiring the right of sale, shall continue to be recovered direct by the Darbar as at present.

29. The Darbar shall directly recover, as at present, the Customs Duty leviable according to the British Tariff Act, upon goods, which having been imported at a foreign port, are brought by land within the limits of any village of this State.

30. Matters relating to opium, salt, excise, arms and ammunition, shall continue to be administered by the Darbar, as at present.

31. The registers and returns of the cattle-pound fees, births, deaths, and crops, shall continue to be submitted, as at present by the Village Patel and Mukhi, who will be held responsible for the same.

32. Fines and penalties being Darbar revenue, the Panchayat shall remit to the Darbar any amount collected by way of fine or penalty.

33. If any Panchayat applies to be relieved of the Panchayat administration, the same shall be terminated at the close of the year.

APPENDIX VI.

Extracts from Official Speeches, etc.

1

Extract from the opening speech of Sir Prabhashanker D. Pattani, K.C.I.E., delivered at the opening of the 7th Session of the People's Representative Assembly held at Motibag on the 22nd December 1925.

* * * * *

"A Committee of experienced officers has been appointed to make a departmental enquiry into Agricultural Indebtedness. When the enquiry is over, the Council will consider the matter, and if they think that, in taking final decisions, the experience of the cultivators and the money-lenders will be helpful, they will certainly do the needful in the matter.

In the course of the present enquiry, accurate information is being collected from the cultivators and money-lenders having dealings with them. The secret of the prevailing harmony between the Ruler and the Ruled in the Bhavnagar State is to be found in the fact that the State of its own motion is fully alive and attentive to the interests of the subjects, and the latter have implicit trust in the good faith of the former."

(2)

Extract from the Minute of Diwan Bahadur Tribhuvandas Kalidas Trivedi, Member of the State Council, dated the 22nd July 1929.

* * * * *

"I know it full well that the President of the Council believes that this evil will not disappear by merely enacting a new law and that belief is true to a great extent. The whole question is very complicated. The financial relations of the lender and borrower—a very delicate matter always—are involved therein. Kheduts do need the help of money-lenders every now and then. The money-lender is a vital and indispensable factor in the village economy and the Darbar cannot replace him. In this dilemma, I believe, the best course would be to take such steps as are indicated by the needs of the situation, ultimately

with a view to restore both parties to their former position of mutual trust and service, without exploitation on the one side and victimization on the other. Moreover, we cannot connive at and condone the practices brought to light during the Committee's inquiry. If that be allowed, the conditions of the Kheduts would soon worsen and economic ruin overtake the whole class, which would again react on the money-lenders themselves and involve them in heavy losses.

"This is fully realized by the money-lenders or at least by the better and more far-seeing section of them, and that is why they have come to see and acknowledge the necessity of some restrictive legislation, which would stop the present unchecked exploitation of the Khedut classes. Of course, I do not mean that we should remain content with merely enacting a law. Considering all the circumstances, the money-lenders, the Kheduts, and all are agreed as to the urgency of some action being taken."

In this connection the President of the Council had a good deal of discussion with the Members of the Committee, as a result of which certain conclusions have been formed. They are as follows :—

"Where it is possible, endeavours should be made to liquidate the past debts of the Kheduts, and for this the co-operation of the money-lenders should be enlisted.

"Where in future suits are filed against Kheduts, the law should be so amended as to enable the courts to examine the whole history of the transactions, out of which the suit has arisen, in order to find out the additions by way of interest and premium and the manipulations in accounts, and finally to make an equitable award fair to both sides.

"Of the measures, the first, though feasible, can only be adopted in practice if the money-lenders are agreeable. In such wholesale liquidation, it is not possible to award the full amounts shown as due according to the accounts of the money-lenders. Simple interest at 12 percent. per annum should be calculated on the amount actually lent, and payments on account should first be appropriated to the interest accrued due; and then the balance remaining together with interest not exceeding the amount of the unpaid principal could with propriety be awarded to the Sowcar. In order to examine the history of all transactions from the commencement, a Committee should be formed of two Darbari

Officers, two Panch of the Mahal and two Panch of the village. The lines on which the Committee should carry on their work are laid down in Exhibit I, and the Kheduts' redemption from indebtedness can only be achieved, if the money-lenders co-operate and assist in adjustment, at the rate of four annas in the rupee of total nominal arrears according to their books of account. This would restore the Kheduts' old relations with the money-lenders. The amount required for the liquidation of the Kheduts' debts may be advanced as a loan by the Darbar at the rate of 4 per cent. interest, and the recovery of the same may be effected by enforcing the scheme shown in Exhibit I, and this will not cause any hardship to the Khedut, especially as the rate of interest charged will be so moderate."

* * * * *

3

Extract from the opening speech of Sir Prabhashanker delivered at the 10th Session of the People's Representative Assembly held at Motibag on the 14th November 1929.

* * * * *

"His highness, though a minor, desires that the burden of debt on his cultivators should be lightened as much as possible, before he ascends the Gadi. That is the reason that has prompted the Darbar to pass orders to write off, during the current year, between 19 and 20 lacs of the arrears of revenues. At the same time, an enquiry is afoot into Agricultural Indebtedness to merchants, and arrangements have been made, which will ensure that, while relief is afforded to farmers against illegal mercantile exactions, the legal and legitimate dues will be paid to merchants. It is hoped that the farmers and merchants will realize that their true interest lies in whole-heartedly falling in with the scheme. During the enquiry it was found that over 50 per cent. of the farmers of this State have been very honest and have no arrears of land revenue to pay to the Darbar nor have they blindly incurred private debt. This is a matter of congratulation. As for the remainder, it should be remembered that those who rely on external help are apt to lose their honesty and ultimately they may lose their status as farmers as well. While remissions are being given to those in debt to the Darbar, I, for one, feel that those who are free from Darbar debt, should be rewarded

for their honesty and industry : and so orders are being passed that in the case of those farmers, who are free from debt, any suspension of revenue ordered during the current lean year, should be remitted altogether as a reward for fair dealing.

“ While the Darbar are writing off from 19 to 20 lacs of the farmers’ debt, it is felt that the Darbar’s generosity would not by itself be sufficient to save the farmers unless the question of their private indebtedness was thoroughly gone into, and unless relief was afforded to them against the usurious practices and falsification of accounts on the part of some of the money-lenders.

“ This was the conclusion arrived at by the Committee appointed to enquire into Agricultural Indebtedness. As a result of this enquiry, I went with my colleague, Diwan Bahadur Tribhuvandasbhai to Gadhiada, to induce the merchants to accept, by private negotiations, a fair sum in amicable settlement of their loans ; we proposed that the Darbar should examine their individual accounts and should allow them a fair rate of interest and so long as the sum due to them with interest did not amount to more than twice the amount of the original loan, the Darbar were prepared to give such sum as a loan to the farmers to fully liquidate their debt to the merchants. Owing to the obstinacy of the merchants the negotiations proved abortive. An act, therefore, to give relief to farmers against private indebtedness has been framed and published as a Bill in the State Gazette. The scheme proposed is beneficial to both parties, if blind self-interest does not come in the way. The Darbar are even now prepared to liquidate the farmers’ debts to merchants on the above lines, if the latter are so willing. If this cannot be, the new law will come into operation and justice will be meted out to both sides in accordance with its provisions.

“ Even after the great relief thus afforded to the cultivators from Darbar and private indebtedness, I fear the same conditions will recur in course of time unless the cultivators will learn economy, and unless a scheme can be devised which will enable them to meet their liabilities without incurring further debt. It, therefore, becomes the duty of the Darbar—and I invite the co-operation of the merchants—to find out a way by which the whole village community can live in peace and manage their own village affairs.

"Thus and thus only can the seeds of self-reliance and mutual co-operation be sown. With this end in view a Bill for the grant of Village Panchayats has been published. This legislation, it is hoped, will be of benefit all round. The cultivators and merchants will both work together. This scheme very nearly approaches full self-government of villages.

"It is the desire of the Darbar to see as many Village Panchayats established as possible, and that is the reason for framing the new rules. Any village asking for the establishment of a Village Panchayat under these rules will get it. A Panchayat has already been established in Hanol during the current year. I have been promising for the last five years that Panchayats will be established in those villages, which ask for it under a constitution framed by the village itself and approved by the Darbar. Finding that the people did not take advantage of the offer, the Darbar have framed the rules themselves.

"Complaints that the Darbar do not wish the people to manage their own affairs are groundless. The Darbar are giving the people a free hand to have a Panchayat based on conditions they themselves ask for, and wish that they would take advantage of the liberal offer. I hope the response will be adequate.

"It is not my order but my request to the Vahivatdars and Thandars to persuade the people to establish at least two Panchayats in each Mahal and Thana respectively.* They should assist the people, where necessary, and make these Panchayats such conspicuous successes that other villages may be tempted to come forward and ask for them. The encouragement of the movement and making it a success will be considered as one of the criteria of good service when promotions are to be given in the future.

"All these three measures have been adopted simultaneously so that their cumulative effect may render the life of the farmers, who comprise 75 per cent. of the population of the State, more happy and contented; other results will be that the monetary relations of the merchants with the cultivators will become purer and more secure and village life will become rosier.

"I invite the co-operation of the cultivators and merchants to bring about this happy state of affairs."

* Some 18 Panchayats are now in operation.

communication on the lines on which the cultivator is going to have a fuller and freer existence. Please treat this as personal communication.

With kindest regards,

Yours sincerely,

(Sd.) VINAYAK N. MEHTA.

Sir Prabhashanker Pattani, K.C.I.E.,
President, State Council,
Bhavnagar, Kathiawar.

(2)

Copy of the reply sent by Sir Prabhashanker D. Pattani, K.C.I.E.,
President of the State Council, to Mr. Mehta's above letter.

BHAVNAGAR.

February, 1932.

MY DEAR MR. MEHTA,

I was in due receipt of your letter dated January 20th, but I regret that in the press of more urgent work, I have not been able to reply to it earlier.

I take it, you have by now received the Committee's Report as also the Evidence Volume, which Mr. Bhaskerrao tells me, he has forwarded to you. The sanctioned Scheme for the Redemption of the Indebted Peasantry is attached as Appendix VIII to the Report Volume.

So far we have redeemed five Tappas or Peta Mahals paying an annual assessment of Rs. 4,86,658-0-0. The total nominal debt of the Kheduts of these Tappas amounted to Rs. 14,19,378-0-0 which has been compounded by paying a total sum of Rs. 3,67,991-0-0. You will readily understand that the nucleus of the original sum borrowed is seldom very large and the swollen figures of indebtedness are mostly made up of additions by way of interest, premia and numerous other charges, which the Sowcars' ingenuity, sharpened by greed, is so fertile in inventing. Further, the loan advanced for redemption has necessarily to be limited according to the capacity and solvency of the Khedut concerned. But there is little doubt, as mentioned in the concluding chapter of the Report,

that the Sowcar under the Scheme is enabled to recover in cash and in one stroke far more than he could, if left to his own devices, have hoped to collect in a number of years from his Khedut customers suffering from chronic indebtedness. But this is by the way.

It is a very pertinent query which you raise when you enquire, as to how to prevent the redeemed Khedut from again relapsing into the slough of indebtedness, after he has been once rescued therefrom. The answer in a way is indirectly suggested in your own brief but very interesting and thought-provoking letter when you ask: "Are you going to do something to remould the cultivator and make him through the village community, an individual proof against thoughtlessness, thriftlessness and immune against facile facility of running into debt?"

But is the uncertainty regarding the future to be made an excuse for total inaction or for postponing action indefinitely, in regard to a problem, which, in all conscience, is grave enough and is daily getting worse and worse? A beginning has to be made sometime somewhere and that sooner the better, the risks of the future notwithstanding. But naturally we should be incapacitated for making any move at all, so long as we thought only of the risks involved in the future and kept saying to ourselves, 'there is a lion in the path'. making that an excuse for inaction. But it is forgotten that the price that may have to be paid for total inaction may be ultimately much greater. At least, I for one apprehend that if the needed action is delayed too long, it might precipitate a grave agrarian situation, whose premonitory symptoms are already too visible. Such desperate and heroic remedies are suggested as total repudiation of all debts or the setting up of Village Bankruptcy Courts making it easy for the Khedut to be declared an insolvent. This might seem like *Cutting the Gordian Knot*, but what will be the moral reactions on the Khedut society of such hasty and ill-considered remedies, practically disowning all legal and moral responsibility involved in past indebtedness, nobody seems to have thought of.

No system, which the wit of man can devise, will be fool-proof and knave-proof, and of course there will be always Kheduts ready to incur debts and unscrupulous Sowcars, too willing to exploit them by advancing money and entangling them in fresh usurious transactions. But some protection against such future victimisation is sought to be given by the Khedut Protection Act, which has been enacted simultaneously with the passing of the Debt Redemption Scheme, and this

Act you will find printed as Appendix VI of the Report Volume. But all Sowcars are not bad, nor can they all be altogether ousted and their place taken by some other agency. At one time these very Sowcars played a very useful and helpful part in the village economy; and is it too much to hope that with the Kheduts once freed from debts, some at least of the Sowcars would resume their old connection with them, charging moderate rates of interest, and that simultaneously the old nexus of personal touch and sympathy between the two classes would be restored.

But of course the best and most effective guarantee for safe-guarding the future lies in the growth of an alround healthy and self-sufficient village community as suggested in your letter. The germs of such a community are sought to be planted here by the extension of the Village Panchayat Scheme which is embodied in Appendix IX to the Report. I recognise that indebtedness after all is a symptom, whose treatment alone is not sufficient and any permanent hope of rehabilitating the village life lies in the establishment of a community, which will not only be economically strong, but where the prevailing public opinion will provide an effective moral check against thoughtlessness and thriftlessness and the too ready tendency to run into debts. What is hoped to be achieved through these Panchayats is explained at some length in the last chapter of the Report.

But the full development of such a Panchayat must, in the very nature of things, be a very slow process. Meanwhile we must remain content with such palliatives, as may be provided by the advance on a liberal scale of State Tagavi, and the extension of the Co-operative Credit Societies. These two between them will finance all reasonable agricultural needs of the Khedut and make him independent of the Sowcar.

It has been long recognised that the chief stumbling block to the success and progress of the Co-operative movement is the burden of past debts, and where, in total disregard of this handicap, an attempt has been made to unduly push forward the movement, it has generally ended in failure. It has been noticed that if the borrowing cultivator, while still continuing in the clutches of the Sowcars, also becomes a member of a Credit Society, he alternately resorts to the Sowcar and the Society to

pay off in turn the debt due to one or the other. He may thus be able to put off the evil day for some time, but meanwhile there is little doubt that his economic condition has worsened and not improved. Altogether I have little doubt that any Scheme aiming at the economic betterment of the Kheduts must include in its purview, and that, as a first step, the redemption of old debts: for while the dead weight of old debt hangs like a mill-stone round the cultivator's neck, it is impossible that he can make any progress.

Arguments by analogy are often misleading, but, as you know, it has come to be increasingly recognised that if the world is to be cured of the universal economic malaise which has overtaken it and a fresh start made possible, it can only be done by first removing the intolerable burden of reparations and War debts. In a smaller way this also applies in the case of a poor debt-depressed and all but insolvent class like the Indian Khedut.

I admit, the present attempt to effect a wholesale redemption of all the cultivators of the State is unique and uncommon, and there is necessarily some risk involved in the attempt. But all things considered, the risk, I am honestly persuaded, is well worth taking and we have taken the bold step in the hope of success.

Yours sincerely,

(Sd.) P. D. PATTANI.

P. S.

I would add that one immediate good result of the liquidation of old debts has been better and easier recoveries of the land revenue in the five Tappas redeemed. The cultivators of these Tappas, being freed from the pressure of indebtedness, have willingly agreed to pay this year, the full unit of the current assessment and also a little more towards past arrears, while in other parts where the conditions in regard to the character of the rainy season and general crop-yield are not dissimilar, the recoveries will fall short by 4 to 6 annas, because the incubus of past indebtedness still remains to be removed from the cultivators there, and large amounts will have to be suspended and carried over as arrears.

The original debts compounded so far as stated in the letter, approximately came to Rs. 14 to 15 lacs, and on this amount the cultivators would have had to pay annually, in interest charges alone, anything between 3 to 4 lacs, calculating interest at the rate of 25 per cent. which is unfortunately the ordinary rate levied, though harder cases in which the Sowcar doubles and even trebles the original sum advanced in the course of a single year, by various ingenious devices are fairly numerous. In brief the Kheduts have had their huge outstandings compounded and paid off by an amount, which is not more than one year's interest charge to which they were subjected for these arrears.

(Sd.) P.D.P.

VINAYAK N. MEHTA, Esqr., I.C.S.,

Lucknow.

(3)

*Reply sent by Sir Prabhashanker, President of the State Council, to V. N. Mehta, Esqr., I. C. S., Revenue Minister to the Government of Jammu and Kashmir's letter inquiring about the progress made with the Redemption Scheme since he wrote his last letter.**

BHAVNAGAR,

27th February 1933.

MY DEAR MR. VINAYAK MEHTA,

I was in due receipt of your letter dated the 2nd instant. I regret I have not been able to reply to it earlier owing to my absence in Delhi whence I returned to Bhavnagar only five days ago.

I am glad the Bhavnagar Scheme still continues to interest you. I enclose herewith an extract from the Administration Report of the Revenue Department for St. 1988 and the same will give you in a brief compass an idea of the progress made in the extension of the Scheme upto the end of October, 1932. In the few months that have elapsed since then, three more Tappas or Peta-Mahals have been tackled, and to cope with the increasing demand for extension of the Scheme, the Committees have now been increased to six, and if we continue to progress at the present rate, we hope to be able to finish the rest of the State in about a year or so from now.

It is yet too early to judge of the beneficent effects of the Scheme. But as I have told you in my last letter, the Scheme has certainly resulted

* Vide Appendix VII (1).

in easier and better recoveries. The redeemed state of the peasantry combined with the right of sale of their holdings newly granted on the occasion of the installation of His Highness the Maharaja Saheb, which has given them a sense of proprietorship, has enabled the State to recover even in areas, where the season has been below normal, the full unit of assessment and also a little more towards arrears.

Another favourable result noticed in the areas that have come under the operation of the Scheme is that where formerly the Khedut was a mere listless and indifferent cultivator owing to the ever-present fear of his creditor attaching his harvested crops, he is now seen to put more heart and industry in his work owing to the sense of greater security and relief brought about by the removal of the burden of past debts.

We are trying as far as we can to keep a look-out as to whether the redeemed Kheduts recklessly incur any fresh debts. So far no marked tendency in that direction has been noticed, except for a few stray cases here and there. Of course, a certain percentage of the redeemed Kheduts will again relapse in the old indebted condition after a few years. But it is not too much to hope that the warning of bitter past experience will act as an effective deterrent in the case of the larger number against their repeating their past improvident practices. However, it is rather premature to forecast the future which must to a certain extent always remain uncertain.

I am glad you intend doing something to afford relief to the agriculturists suffering from chronic indebtedness, but I am not sure if compulsion is the right way to go about it. No doubt conditions in Kashmere are not exactly similar to those of Kathiawar and Gujarat, but the problem of agricultural indebtedness, even allowing for local differences, is fundamentally the same all over the country, and if my experience on the matter is any authority I should say that mutual agreement and co-operation between the lender and the borrower is necessary for the permanent solution of the problem, while compulsion may not prove equally fruitful of success, if indeed it may not leave an after-taste of bad feeling and bad blood, which may lead to future trouble between the two classes.

V. N. MEHTA, Esqr., I.C.S.,
KASHMERE. }

Yours sincerely,
(Sd.) P. D. PATTANI.

(4)

Reply sent by Sir P. D. Pattani to G. K. Devadhar, Esq., M.A., C.I.E., of the Servants of India Society, Poona's letter, asking for the former's views in regard to relief of Agricultural Debt, in connection with the Travancore Co-operative Inquiry Committee, of which the latter has been appointed President.

BHAVNAGAR,

29th September, 1933.

MY DEAR MR. DEVADHAR,

I am in due receipt of both your letters, respectively, dated 15th and 19th instant, as also the very detailed and comprehensive questionnaire enclosed with your second letter.

You have kindly put a red pencil mark against the questions, which you expect me to answer. But Question 155 presupposes a knowledge of the provisions of the Travancore Civil Procedure Code and Q. 156, a knowledge of the functions and financial standing of the Trivendrum Central Co-operative Bank, of both of which I am quite innocent. Similarly Q. 154, relating to the extent of rural indebtedness, demands a previous acquaintance with local conditions. The only question, therefore, to which I could attempt an answer is Q. 153, though here too, the absence of experience with local conditions must detract from any opinion, I might offer with regard to the need or justification for a scheme of Debt Redemption. I take it that in using the phrase 'Rural Indebtedness' you have in your mind principally the question of redemption of agricultural indebtedness. Further, though Travancore is a far-cry from Bhavnagar, I will assume that, apart from any local peculiarities, this problem of agricultural indebtedness has in its broad aspects many common features all over India, since the problem has its origin in more or less similar conditions obtaining in a predominantly agricultural country like ours. I am fortified in this opinion by the findings of the Central Banking Inquiry Committee, of which you must be well aware.

No industry can thrive without proper financing, and since agriculture is the largest industry in the country, its financing should be the first care of everyone interested in village uplift. But no scheme of agricultural financing can be complete, which fails to envisage the

problem of old debts, which bear usurious rates of interest—anything from 10 to 300 per cent. and even more as found by the Banking Inquiry Committee. While this dead-weight hangs round the Kheduts' neck, it is impossible he can have any interest in his work, and if he were less fatalistic and conservative than he is, he would not have been able to carry on, as he has upto now. But if he has carried on, it is only as a listless and indifferent cultivator, who has no heart in his business.

But I thought the urgent need of debt redemption was hardly an arguable point. Everybody admits the extent and intensity of agricultural debt, and still if one fights shy of undertaking redemption, it is because of the magnitude of the problem and the huge financial outlay involved.

I am no psycho-analyst; but it is no uncommon experience to find that, when one is either unable or unwilling to do a thing, which is otherwise worth doing, one does not always confess one's inability, but by a curious psychological process, one is often apt to deceive one's self into the belief that the thing is after all not worth doing at all, or the time is not opportune for doing it. At times, I feel that a similar mental process, though not distinctly recognized, is behind the non-possumus attitude adopted towards the problem of rural debt redemption. While the sub-conscious mind admits the necessity of debt redemption, the conscious mind is frightened by the seeming impossibility of the task and proceeds to justify to itself its attitude of inaction and hesitancy either by denying the problem altogether or belittling its seriousness, or again by conjuring up a picture of the same conditions being reproduced in a few years after the old debts have been once redeemed.

Another result of not going to the heart of the problem and only keeping beating about the bush is to get side-tracked in sponsoring schemes of cheap and easy credit forgetting the heritage of old debts from the past. So, where in disregard of past indebtedness, attempts are made to unduly push forward Co-operative Banks or other Schemes intended to provide easy credit, they have not attained the measure of success expected, if indeed they have not totally failed. Any alternative scheme of providing necessary credit can have only a fair chance of success, after the problem of old debts has been successfully tackled once and for all.

The question whether there is real need and justification for debt redemption, may be met by the counter-query, whether, if redemption is not undertaken by an intermediate agency, the indebted Khedut can repay and discharge his accumulated debts from the narrow surplus of his agricultural income, in a reasonable period of time, and if he cannot as everybody will easily grant he cannot, where is the use of the creditor insisting on full payment which he knows or with the exercise of a little imagination ought to know, he cannot realise? The situation in some parts has become so acute that the suggestion has been made in some quarters, that "the only method by which agriculturists might be saved from utter ruin was to allow them to repudiate all their debt obligations." The words in the inverted commas are quoted from a lecture delivered last year before the Calcutta University Institute by Mr. Naliniranjana Sarkar, President, Bengal National Chamber of Commerce and who was also, if I mistake not, a member of the Central Banking Inquiry Committee. The method of total repudiation needs only to be mentioned to be rejected all at once; for the remedy would prove worse than the evil from the standpoint of both the debtor as well as the creditor. But at the same time it must be recognised that the debtor after all cannot pay more than his capacity would allow, and the sooner the creditor realises it, the better for him, no less than for the debtor. For while the stalemate of the debtor not paying anything and the creditor not receiving anything toward the arrears, continues, it cannot be to the advantage of either side, if indeed not positively injurious to the interests of both, and the best thing would be to end the stalemate by mutual adjustments and meeting half-way, if grave trouble is to be avoided in the future. Mr. Sarkar, in my humble view, did not exaggerate, when in the concluding part of his lecture referred to above, he observed that "the menacing position of the overwhelmingly indebted agriculturists now reduced to extreme destitution demanded immediate action for averting an almost cataclysmic disaster that might eventually overtake the whole country through an agrarian upheaval inspired by utmost desperation."

If the need for redemption is once conceded, the next question is how to go about the thing. Of course, there can be no question of repaying in full all the nominal outstandings claimed by the Sowcar. In most cases the nucleus of original advance is small and the swollen

figures consist mostly of accumulations of interest, commission, premia, etc. Further any sum advanced in composition of old debts must be determined with due regard to the capacity and credit of the indebted peasant who is all but insolvent. In the Bhavnagar Scheme, the sum to be paid in redemption of the debt of an individual Khedut, it has been laid down, should not exceed an amount equal to three times the annual assessment payable by him.

If redemption is decided upon, the present, I think, is the most propitious time for undertaking the task. The margin of agricultural profits from which the individual Khedut could hope to make payment towards interest and principal is greatly reduced owing to the prevalent economic depression especially in prices of agricultural commodities, and the creditors unable to make any recoveries on their own, would be in a more amenable mood to agree to the scheme of composition which holds out immediate prospects of cash payments. Further with reduced land values and low commodity prices, it would be safer to correctly appraise and calculate the credit and capacity of the indebted Khedut for repayment of the redemption loan without the risk of such calculation subsequently proving erroneous, than would be the case in a period of boom, when land values and prices are inflated, leading to an exaggerated view being taken of the Khedut's margin of profits from which the Khedut was to pay the redemption loan. If the advances required are not forthcoming from the State itself, the necessary funds in these times when so much cheap and fluid money is going about seeking investment could be easily raised at low rates of interest, by properly organised Land-mortgage Banks or similar organisations.

Of course, it would be hazardous to make any forecast regarding the future after the wholesale redemption has been once effected. Our experience in Bhavnagar is of far too short a duration, to base any generalisations upon. But the very fact that the Khedut is free from the load of old debts should improve his credit and enable him to obtain advances on easier terms, should he require them. From the way your questionnaire has been framed, the co-operative movement would seem to have been fairly advanced in the Travancore State, and the movement would be consolidated and be more capable of rendering useful service to its Khedut constituents, when once they are freed from their old debt.

applied, these figures have been found to be very wide of the mark by anything from 25 to 50 per cent. No doubt an interval of 3 to 4 years has elapsed between the first inquiry and the application of the new scheme. But even allowing for any fresh accumulations of debts in the intervening years the discrepancy is much too large to be explained by the mere time factor and it is suspected that at the original inquiry a large number of Kheduts either kept silent altogether or understated the amount of their indebtedness out of a sense of prestige or for fear of losing credit and social status or some other motive not easy to fathom. So I hope you would please avoid any mere guess-work in the matter of gauging the extent of rural indebtedness even where such guesses are made by men who think they are in intimate touch with local conditions and are, therefore, entitled to hazard a guess.

I do hope you will be seen restored to your usual vigorous self and thus be enabled to resume the threads of this important public work in the beginning of November next, as you eagerly look forward to doing.

Yours sincerely,
(Sd.) P. D. PATTANI.

P.S.—As reinforcing the views expressed above, I take the following from a letter under the heading ‘Indebtedness of peasantry’ appearing at page 14 in the *Times of India* of September 27th:

“Next to education, the most acute problem of rural economy is as to how to remove the bonds of rural indebtedness that shackle Indian agriculture. It is said that “the Indian Agriculturist is born in debt, lives in debt and dies in debt.” Thus the redemption of debt is a fundamental condition precedent to the launching of any scheme of rural upliftment. There can be no denying the fact, therefore, that the further delay of village reconstruction or even the adoption of lukewarm measures would admittedly bring about a disorder and anarchy of a more dangerous character than those emanated from bread riots of the urban unemployment.”

(Sd.) P. D. P.

G. K. DEVADHAR, Esq.

(5)

Letter received by Sir. P. D. Pattani from Mr. G. K. Devadhar, giving impressions of his visit to Bhavnagar to personally study on the spot the working of the Debt Redemption Scheme.

THE TRAVANCORE CO-OPERATIVE ENQUIRY COMMITTEE.

President :

G. K. DEVADHAR, M.A., C.I.E.,

PRESIDENT OF THE SERVANTS OF INDIA SOCIETY, POONA,

C/o BHATIA MATERNITY HOSPITAL,

BAZAR GATE STREET, FORT.

BOMBAY, 14th April 1931.

To

SIR PRABHASHANKER D. PATTANI, K.C.I.E.,

PRESIDENT OF THE COUNCIL OF ADMINISTRATION.

BHAVNAGAR STATE,

BHAVNAGAR.

MY DEAR SIR PRABHASHANKER,

It was such a great pleasure to me to be enabled to pay the long promised visit to Bhavnagar, the place which is really made by you in regard to its modern aspects and which have been largely the result of your inspiring and organising genius, which had to combine with it a good deal of the necessary fighting spirit, tenacity, ultimate faith in humanity and in higher ideals.

2. My visit to your progressive state which is one of the most thriving and prosperous states in advancing India, has been an eye-opener to me, and the very pleasing impressions that I have received and brought here back with me will be of an abiding nature.

3. I have been trying to digest the very interesting and engrossing details of the *Scheme of Redemption of the Agricultural (but not rural) Indebtedness*, which your Darbar has so boldly and so far so successfully carried out. My visits on two separate days to Talaja and Timbi have really enabled me to form a true and realistic idea of the great work,

which your State under the able direction of your-self and the loyal officers and colleagues of yours has been able to achieve during the last three years or so. It is so complicated that it would not be wrong if I say that I would take sometime to formulate my own definite views. But this much I can say at once that it is not only thought-provoking but also an action-compelling experiment very boldly undertaken and most practically and successfully carried out. I have nearly finished the reading of the final draft of the report intended to supply up-to-date figures and facts, but these have not yet been included in the report drafted by Mr. Natwarlal. I will send you a copy of my letter to him after I complete its perusal.

* * * *

6. I hope to meet you in June in Poona for a further discussion on the subject of your Scheme with the Members of the Servants of India Society in Poona when most of them would be present there for the anniversary of the foundation of the Society.

With the kindest regards,
I remain,

Yours sincerely,

(Sd). G. K. DEVADHAR,
M.A., C.I.E.,
President.

(6)

Reply sent by Sir P. D. Pattani to Mr. G. R. Pillai, B.A., B.L., Personal Assistant to the Registrar of Co-operative Societies, Travancore's letter dated the 23rd October 1933.

Dated 4th November 1933.

MY DEAR MR. PILLAI,

Many thanks for your kind letter dated 23rd ultimo, and for the appreciative sentiments expressed therein for what little Bhavnagar has been doing on behalf of its peasantry. You will be glad to know that the scheme of wholesale redemption of agricultural indebtedness launched some three years ago has made considerable progress, and the

few Tappas, *i.e.*, subdistricts, that remain to be brought under the operation of the scheme, will have been finished by about the end of March 1934.

I entirely agree that co-operation has been far from being an unqualified success. There are several reasons which have perhaps prevented the realization of the hopes, which co-operation theoretically holds out. One reason, as you suggest, is failure "to adhere to its main principles and the wrong approach from a joint-stock mentality." But the main reason, so far as I am able to judge, is rather the rash manner, in which it was sought to push forward co-operation in total disregard of the heritage of the Khedut's past indebtedness. It has been noticed that if the borrowing cultivator, while still continuing in the clutches of the Sowcars, also becomes a member of a Credit Society, he alternately resorts to the Sowcar and the Society to pay off in turn the debt due to one or the other. He may thus be able to put off the evil day for some time, but meanwhile there is little doubt that his economic condition has worsened and not improved. Altogether I have little doubt that any Scheme aiming at the economic betterment of the Kheduts must include in its purview, and that, as a first step, the redemption of old debts; for while the dead weight of old debt hangs like a millstone round the cultivator's neck, it is impossible that he can make any progress.

Experience in British India has served us here as a warning, and we are proceeding cautiously in the extension of the co-operative movement, generally restricting its activities to the *bona fide* purpose of supplying cheap and short-term credit for strictly agricultural needs. It is no use placing at the Khedut's disposal undue credit facilities, which are certain to be abused, without first making sure of the surplus income from which he would be able to repay the advances made.

The idea of a Land Mortgage Bank has not been mooted in the State so far, nor am I sure whether such schemes originating in the West would always suit Indian conditions.

It is good to have first-hand knowledge and experience of a foreign successful model. But such knowledge has at times also its disadvantages in that the mind fully preoccupied with the foreign model is rendered incapable of original and independent thinking, and is further tempted to blindly imitate the outside model, without giving proper thought and weight to the essentially differing local conditions.

It is a bold experiment, on which we have launched in undertaking wholesale redemption of agricultural indebtedness. But, in my humble view, no scheme of rural reconstruction can be successful which, as stated before, does not envisage the problem of past indebtedness. Lastly, unless the economic rehabilitation of the village cultivator is achieved betimes, the position which is grave and menacing enough in all conscience, will continue to worsen and ultimately might precipitate a country-wide cataclysmic disaster far more serious than any artificial political agitation, however violent and unscrupulous could ever bring about. The only way to a peaceful administration lies through economic contentment; and relief of the burden of past debts of the village Khedut—the backbone of the country—is the first and essential step in that direction.

Yours sincerely,
(Sd.) P. D. PATTANI.

(7)

Extract from a letter of V. L. Mehta, Esq., B.A., Editor, "Bombay Co-operative Quarterly," dated Bombay, the 10th May 1932.

* * * *

You have initiated a most interesting experiment in undertaking debt settlement and redemption; and I believe in no part of India has the work been undertaken on so large a scale or with such elaborate systematic inquiries into the whole problem of indebtedness, particularly in its practical aspects. Any success that you achieve is bound to affect the trend of action in other parts of India, although elsewhere circumstances may not be quite so favourable, as we feel they have been with you in Bhavnagar State.

APPENDIX VIII.

Newspaper Notices and Reviews.

1

BHAVNAGAR: RELIEF OF AGRICULTURAL INDEBTEDNESS, being the concluding portion of an article 'PROGRESS IN THE INDIAN STATES' by Mr. John De La Valette appearing at pp. 187-190 of the *Asiatic Review*, January 1934.

"Droughts and price slumps bring misery to the Indian peasants only intermittently; the money-lender is always with him, or at least he was, for in Bhavnagar they have changed all that. And the way in which they have changed it is as ingenious as it is comprehensive and far-sighted, the latter characteristic being only what one would expect in action with which Sir Prabhashanker Pattani, the President of the Bhavnagar State Council, is associated. The problem of relieving the indebtedness of the Indian ryot has been qualified by the Indian Central Banking Committee as being one "of supreme importance from the point of view of the economic prosperity of the country, as well as for the purpose of stemming the growth of discontent among a large section of the population." The Royal Commission on Agriculture has pointed out that the worst policy towards debt was to ignore it and do nothing. A certain amount has in fact been done, largely along lines indicated by the Central Banking Committee, in the Central Provinces, the Punjab and in Bihar and Orissa. But nowhere in India, perhaps, has the problem been tackled so deliberately and has so comprehensive a remedy been applied as in the Kathiawar State of Bhavnagar.

There the problem has received systematic attention ever since the appointment in December 1925, of a committee to enquire into agricultural indebtedness. This body accomplished its task conscientiously; it made an exhaustive investigation and presented an excellent report in April 1931, the recommendations of which were supported by evidence and facts. The measures taken on the strength of it proceeded from the consideration that the evil of indebtedness was only a symptom, the cause of which lay deeper. The removal presented a complex problem which could not be solved piecemeal, but only by comprehensive action. Thus no improvement in the condition of the ryot was possible, unless

he could be made to start with a clean slate. But it was of little avail to rid him of debt, if he was to slip back into indebtedness almost immediately. And he would, it was felt, be almost bound to get into debt afresh, unless village life as a whole could be placed on a sounder basis.

Finally, though the bad money-lender was branded as an evil to be eradicated, the need of the peasant to have recourse at certain times to some money-lender from whom he could borrow on reasonable terms for productive purposes was admitted as an economic necessity. In fact one finds a curious thought running through much that was written and said at the time on this aspect of the subject. It was, perhaps, most intriguingly expressed, when Diwan Bahadur Trivedi stated the aim of the contemplated measures to be removal of the existing conditions in order "to restore the pristine purity of the relations" between the ryots and the sowcars. Apparently, when the world was young, money-lenders were pure in Bhavnagar, which appears in practice to have meant that they never charged more than 12 per cent. per annum on the original sum advanced, and did not add premiums and commission which doubled and trebled in a very short space of time the original sum loaned.

The measures eventually enacted by the Bhavnagar State Council consisted first of an Agriculturists' Relief Act, which followed the principles of that in force for the Dekhan, with such modifications as local conditions rendered necessary. This Act could "at best only render negative help," but it did prevent extortion where loans had been made. Upon this followed a Debt Redemption Scheme, calculated to "wipe off at one stroke all the outstanding debts of the Khedut and enable him to write on a clean slate again." This scheme was based on the—no doubt fully justified—assumption that the highly indebted peasant was virtually bankrupt, "and if he was made legally insolvent as he really was, it was practically certain that the money-lender would get little or no dividend" from his estate. If, therefore, the State were to undertake to advance a reasonable sum to the indebted peasant, with which to pay off the creditor in full, "the money-lenders would in their own interest" accept the offer and thereby "help themselves and the State in economically rehabilitating the Khedut class."

The basis on which the sum due to the money-lender was compounded, was that he should receive his loan capital back in full with interest

at the rate of 12 per cent. per annum. Interest on the amount advanced by the State was to be paid by the peasant by way of an addition to his land revenue and, being based on 4 per cent. per annum, it meant only a very slight extra burden. After some preliminary reluctance on the part of the Sowcars the scheme was accepted. By March 1933, Kheduts paying one-half of the State's total land revenue had been cleared of debt. By August last their number covered three-fourths of the total. A very few months more will suffice to liquidate in equally satisfactory manner the remainder of the agricultural debts. This is a truly remarkable achievement which speaks well for the administrative skill of the Bhavnagar Government.

It has involved investigating the whole history of debts incurred in small amounts, but aggregating to sixty lakhs of rupees and necessitated a total payment by the State, so far, of some fifteen lakhs. To this should be added some nineteen to twenty lakhs which the State has written off in respect of arrears of land revenue due to it. This settlement, therefore, not only clears three-fourths of the peasantry of all debt whatsoever, but it also reduces their annual liability for payment of interest by some four and one-half lakhs of rupees, as the actual rate of interest payable by the peasants frequently rose to and even exceeded 25 per cent. per annum. In the matter of land revenue the human understanding of Sir Prabhashanker Pattani once more displayed itself. He had found that "over 50 per cent. of the farmers of (his) State had been very honest, and had no arrears of land revenue, nor had they blindly incurred private debt." So to benefit also these deserving individuals who had no outstanding debts to compound and no arrears of revenue to remit, "any suspension of revenue ordered during the current lean year" was to be wiped out "as a reward for fair dealing." There is a kind of justice which democracies are barred from exercising. It is well that there should still be States in India to demonstrate the good points in forms of government in which merited discrimination can still be applied.

Having thus rid the peasant of his present debts, and protected him against extortion in respect of his future ones, it still remained to raise the village as a community to a higher level. For this purpose the Gramya Panchayat measure was passed, the object of which was "nothing less than the rehabilitation of the whole village life itself" on a

basis of local autonomy. Under it each village, which applied for the right, may henceforth, *inter alia*, "determine its own method and procedure of revenue collection." It may punish defaulters to the extent of forfeiture of land and the auctioning of vacant holdings. It is also empowered to build up a reserve from the surplus proceeds of land so sold, which is to accrue to the benefit of the Panchayat. Where the reserves are large enough, they can be used for financing the agricultural needs of the Kheduts. There are other provisions which, taken in their entirety, justify the claim that the Panchayat measure is both "educative and ameliorative."

But if it has proved possible to make a peasant get on good terms with a money-lender, it seems much harder to make him trust his neighbour. And so, apparently, the progress made with these grants of village autonomy has been slow.

Even so the comprehensive nature of these agricultural reforms in Bhavnagar is bound to have a salutary effect on the population of the State. It will also stand as a useful object-lesson to be studied by other States and in those parts of British India where similar evils are experienced, but where a remedy on so broad a basis has never yet been tried."

2

Extract from "Bhavnagar : Recent Progress"—being a notice, by Mr. John De La Valette of the Bhavnagar Census Report appearing in the Asiatic Review, July 1933, p. 540.

"Whilst the percentage of the urban population was 26.8 in 1881, it is now 30.5. Even so, the farmer's struggle for life is no easy one, and his indebtedness correspondingly burdensome. A committee of inquiry which was appointed to investigate this question delivered itself of an able report, which disclosed a disturbing state of affairs. The number of Kheduts free from debt was only half that of those who were in debt, and as many as 30 per cent. of the total number of farmers were stated to be "hopelessly involved in debt, and their condition such as to give cause for grave anxiety." Here the matter might have remained, as such matters frequently do after recommendations have been made. Not so in Bhavnagar, where the thorny problem was energetically

tackled on the basis that the cultivator "should be liberated from the economic bondage of money-lender," whilst the latter should at the same time be equitably treated. A system was organized, under which existing obligations could be investigated at the joint request of the Khedut and the money-lender in accordance with rules similar to those of the Deccan Agriculturists' Relief Act. After reducing the amount due to equitable dimensions, the Darbar discharged the Khedut's debt by distributing the total amount of the liability so fixed *pro rata* among the farmer's creditors in full settlement. At the time the Census report went to press, the cultivators of three districts had in this way been completely freed from debt to money-lenders, their resulting obligations to the State being brought within reasonable limits. Operations in other districts are proceeding to similar effect. This bold and constructive policy by the Bhavnagar Government cannot fail to react favourably upon the condition of the peasantry."

3

A leaderette appearing in the 'Times of India' dated the 2nd February 1932.

DEBT PREVENTION.

"The report on the Administration of Bhavnagar State is always interesting because for many years past that State has been regarded as a model for the whole of Kathiawar. In the latest of these reports, which has just been issued, particular attention is devoted to describing a scheme* for settling the debts of farmers in such a way that money-lenders might recover the principal with a moderate amount of interest. This scheme was devised as a complement to an Agriculturists' Relief Act and has been tested in a way which should compel attention all over the country. Merchants and agriculturists in certain areas in the State expressed their willingness for their accounts to be settled and a Committee of officers and representatives of money-lenders was appointed for the purpose. It was found, the amount owing, according to money-lenders' books, was Rs. 3,59,702, and the sum found actually due according to certain prescribed rules was Rs. 1,84,507, a sum which was

* *Vide Appendix IV.*

eventually reduced to Rs. 1.02,747. As the report says, 'this attempt to effect a complete redemption of the whole of the agriculturist class and thus to enable it to make a fresh start is unique. No doubt this will necessitate the advance of a very large sum and some risk is also inevitable under the circumstances; but considering the lofty and benevolent aims which have motivated this attempt, the risk involved is not excessive and certainly worth taking.'

"The Committee is now engaged in extending the scheme and next year's report, which should show the effect of its operation on the State as a whole, should prove of particular value to all, who are concerned in trying to devise means to relieve the heavy indebtedness of the agriculturist class. Another notable reform that has been introduced in Bhavnagar is the grant of local Panchayats to villages. During ten years of the Minority Administration only three villages started Panchayats. It is necessary now that more villages should manage their own affairs because a Village Improvement Fund of Rs. 27 lakhs has been given by the Darbar on the ground that the problem of agricultural indebtedness could not be tackled without at the same time dealing with the whole economic life of the village. The establishment of Panchayats is looked upon as an educative measure combining in itself both self-determination and self-government, and the application of those principles to village life is something, of which the State may well be proud."

4

Extract from the leading article of the 'United India and Indian States' dated the 13th February 1932, reviewing the Administration Report of the State for the year 1929-30.

* * * * *

"The question of revenue arrears has for a long time been a vexed question in Bhavnagar, and we are glad that the Darbar has cut the Gordian Knot by wiping off a good portion of the debts as unrealisable. This long needed measure was no doubt delayed on account of the minority of the Ruler and its adoption at the present juncture will come as a much appreciated relief to the agriculturist, who is after all the backbone of the State's prosperity. The balance of the arrears of Revenue has been donated by His Highness the Maharaja to the agricultural

population of the State and is to constitute a Village Improvement Fund (the interest of which being used to give amenities to the village agricultural population, who will themselves administer the fund). Another measure of relief to the agriculturists brought into effect during the year was an Act for the protection of the Agriculturists, viz., the Agriculturists' Relief Act, by which it was proposed to settle the private debt of the farmers in such a way that Sowcars might recover the amount of principal with a moderate amount of interest. The result of the examination of the money-lenders' account books showed that the total nominal amount owing by the cultivators in Lilia according to the Sowcars' books was Rs. 3,59,702, while the sum actually found due by the committee appointed under the Act was Rs. 1,84,597. The scheme of the Act is for the State to advance the sum thus found on behalf of the cultivators and the sum finally paid in this way during the year came to Rs. 1,02,747. The report claims with truth that "the present attempt to effect a total and complete redemption of the whole of the agriculturist class and thus enable it to make a fresh start is unique and uncommon." A Village Panchayat Code was framed and promulgated, under which any village fulfilling certain qualifications was free to claim the grant of a Panchayat, involving the practical transfer of the whole village administration to the villagers themselves with the minimum of outside interference. The scheme provides in the last resort for a very large transfer of powers of internal autonomy, and its results in Bhavnagar will be watched with interest even outside the State. The key-note of the report before us is the anxiety of the Darbar to improve the lot of the rural population * *"

(5)

An article appearing in the 'Times of India' dated the 14th April 1932.

Freeing the Ryots from Debt ; Bhavnagar Scheme.

RELIEF MEASURE MAKES PROGRESS.

In the *Times of India* of 2nd February, there appears under the caption "Debt Prevention" a leaderette* reviewing the report of the Administration of Bhavnagar State for 1929-30. The article has been

* Vide Appendix VIII (3).

appropriately entitled "Debt Prevention," since therein you draw pointed attention to the unique scheme of wholesale redemption of agricultural indebtedness which is being applied in the State. Citing figures, you state that the Sowcar's book debts amounting to Rs. 3,59,708 have been compounded for a sum of Rs. 1,02,747. These figures relate only to the cultivators of 12 villages of one Tappa or Peta-Mahal, viz., Panchtalavada under Lilia Mahal. But since the Report was written, considerable progress has been made in the work of redemption, and now the whole of Lilia Mahal, comprising some 36 villages, as also Umrata Mahal comprising 53 villages have been redeemed and operations for redeeming another Mahal Gadhada, consisting of 25 villages are also nearing completion.

DEBTS REDEEMED.

The total number of registered Khatedars, including co-sharers in the two redeemed Mahals, is 5,131, and the annual assessment payable by them is Rs. 6,43,542. All these cultivators have had all their private debts redeemed under the scheme. The nominal arrears owing by them according to the Sowcar's books amounted to Rs. 17,98,781. These were paid off and compounded by the State advancing on behalf of the indebted cultivators a sum of Rs. 4,62,614.

These nominal outstandings as shown in the Sowcars' books, it need hardly be said, are mostly made up of interest, premia, etc., while the nucleus of the original debt is seldom very large. Another factor that goes to reduce the ultimate amount for which the nominal debt is compounded and compromised, is the capacity and solvency of the Khedut which, it is notorious, is always very limited. But there is little doubt, as remarked elsewhere, that the money-lender on the whole is enabled under the scheme to recover in cash, and at one stroke far more than he could, if left to his own devices, have hoped to collect in a number of years from his Khedut customers suffering from chronic indebtedness.

BENEFIT TO CULTIVATORS.

Of course, the benefit to the cultivators is obvious. There is to-day not a single suit or execution proceeding pending against any Khedut in the Civil Courts of these two Mahals. Further the economic improvement brought about in the Kheduts' condition is reflected in easier and

better recoveries. For instance, in Lilia Mahal on a moderate calculation, the recoveries this year would be better by 4 to 6 annas than would have been the case under the old conditions, when the agriculturists were still weighed down by the burden of past debts. So even putting it on the low ground of self-interest, the State itself stands to gain enormously by the redemption of its peasantry, and the favourable result in recoveries, though only an incidental advantage, is by itself, a sufficient justification, if one were needed, for redeeming agricultural indebtedness.

SAVING INTEREST.

It may be further added that the cultivators by this measure of relief would annually save in interest charges alone a sum of nearly Rupees four lakhs and a half, calculating interest at the rate of 25 per cent. which is unfortunately the ordinary rate levied, though cases of still more extortionate rates being levied occur only too frequently. But even taking the average rate of interest at 25 per cent., the Kheduts, it will be observed, have had their outstandings compounded by payments of a sum which is only a little more than the annual interest charge to which they were subjected for these arrears.

Originally only one Committee was appointed for investigating accounts and fixing the amount to be paid in composition. But now applications are coming in from Sowcars and Kheduts of other Mahals of the State to have the benefit of the Debt Redemption Scheme extended to them, and this has necessitated the appointment of three more Committees, which may have to be further multiplied to cope with the increasing demand.

(6)

Leading article appearing in the 'United India and Indian States', dated the 14th May 1932.

Agricultural Indebtedness.

AN EXPERIMENT IN BHAVNAGAR.

In our issue of 13th February 1932 in the course of a review of the Bhavnagar Administration Report, we had the pleasure of drawing public attention to the scheme for the redemption of the Agriculturist's

private debts which was being tried in that State. In the case of Bhavnagar, agricultural indebtedness in one way or another has been a grave stumbling-block to real agricultural prosperity, a fact to which we were frequently drawing attention in our columns. The matter has, we believe, been engaging the serious attention of the administration. "Monstrous" rates of interest were levied in the villages, which it was alleged in some specific cases enabled the lenders to obtain "in one year only civil decrees for amounts four to six times as large as the original sums advanced." The result was, in a large number of villages there persisted a low economic level in the village population, as a consequence of which not only was the standard of life low but the State also suffered in the way of huge arrears of land revenue, which the Khedut was unable to pay. As a consequence of a petition from certain Kheduts and the report of the Revenue Commissioner on the same, the Government appointed a Committee of Inquiry; Diwan Bahadur (then Rao Bahadur) Tribhuvandas K. Trivedi being nominated as the Chairman and the Chief Judge, Mr. Bhasker Rao V. Mehta and the Revenue Commissioner, Mr. B. N. Gohel, being members of the Committee. The preliminary survey of the situation by the Chairman disclosed an alarming state of things—oppression and hardship being the chief characteristic of the indebtedness, which was established beyond a doubt. In most villages, the Kheduts had not the requisite implements of agriculture, some being even without bullocks and dependent upon others for having their land ploughed. The cost of cultivation was also rising due to increased labour charges. "Indeed" says the report, "in several villages, the Ubhads (labourers) seemed to fare better than the regular Kheduts, a few Ubhads here and there being able to advance moneys to Kheduts from their savings." The alarming conditions revealed in the preliminary inquiry indicated the need for a comprehensive investigation embracing the whole State. This was ordered and the result was a painstaking inquiry and a thorough and comprehensive report constituting an authoritative pronouncement on the question of agricultural indebtedness in the State. Action was soon taken. The grave economic condition of the peasantry that was revealed as a result of the Committee's inquiry was amply borne in upon the Council, and Sir Prabhashanker Pattani, the President, soon realised that unless grave agrarian trouble was to be risked in the near future, it was imperative to take immediate remedial measures to restore economic health to the debt-

depressed and all but insolvent Khedut. So with a view to afford him relief in regard to past usurious debts and protection against victimisation in the future, a Khedut Protection Act has been passed. The Act provides for the court going into the history and merits of a case from the commencement of the transactions between the parties and for taking accounts and the Act also provides for the court giving a decree in instalments only. The debtor also is entitled to sue for accounts and for declaration of the amount due by him to the creditor, such a suit being exempt from court fees. The Act so far as it goes is undoubtedly an ameliorative measure, and its unusual provisions seem to be justified by the somewhat unusual conditions of usury obtaining in the State. We have read with particular interest the very comprehensive and informative minute prepared by the chairman Diwan Bahadur Tribhuvandas Kalidas Trivedi and published as Appendix VII to the report, which contains several constructive suggestions to put down the tricky and tortuous modes of accounting adopted by the Sowcars. As we have pointed out the Khedut Protection Act is an ameliorative measure to relieve the agriculturist, a term more clearly defined in the Bhavnagar Act than in the Deccan Agriculturists' Relief Act, on which the former Act is primarily modelled. But this was negative help which the Committee thought was inadequate to meet the needs of the case. So with the Act, the Council sanctioned a Debt Redemption Scheme "which would help wipe off at one stroke all the outstanding debts of the Khedut and enable him to write on a clean slate once again." The principle is that the Darbar will liquidate the past debts of the Kheduts by advancing loans to each individual khedut at easy rates of interest, if such liquidation is possible and if the Sowcars are prepared to accept the actual principal originally lent plus interest at a moderate and equitable rate. A majority of the Kheduts and Sowcars in any Mahal may apply jointly to avail themselves of the liquidation scheme: upon such application, the Darbar is to form a Debt Liquidation Committee consisting of two Darbari officers. The creditors of the Mahal are to have two representatives, who will be members of the Committee and one or two representatives will be selected (or co-opted) by the Darbari officers from respectable persons belonging to the village in regard to which the work of liquidation is taken in hand. The creditors and debtors are to give an undertaking to the Committee that its awards shall be binding on both parties. The

amount will be fixed and advanced to the lender, and the Khedut whose debt has been thus liquidated has to present the produce to the Darbari Khalawad after deducting the Khedut's share of the same. The balance will be appropriated towards the various payments due to the State under the Bhagbutai system, or as Tagavi loans and also as loan advanced under the Redemption Loan Scheme. The scheme has now been applied to two Mahals of the State, viz., Lilia and Unirala. The first comprises 36 villages and latter 33 villages. There were 5,131 registered Khatedars paying an annual assessment of Rs. 6,43,542 in the two Mahals and all these have taken advantage of the liquidation scheme. The nominal arrears owing by them according to the Sowcars' books amounted to Rs. 17,98,759, this being made up of interest, premia, etc. The same was paid off and compounded by the State advancing on behalf of the indebted cultivators a sum of Rs. 1,62,614. At the same time, it is not correct to say that the scheme is a burden on the money-lender class, because under it "the money-lender on the whole is enabled under the scheme to recover in cash and at one stroke far more than he could, if left to his own devices, have hoped to collect in a number of years from his Khedut customers suffering from chronic indebtedness." The result on the whole has been to benefit the Khedut considerably in the two Mahals, there being not a single suit or execution petition pending against any Khedut in the civil courts. The State also gains, because the method of redemption employed helps the better recovery of revenue. In Lilia Mahal, we are told that during the current year the recoveries this year would be better by 4 to 6 annas than would have been the case under the old conditions, so that the favourable result in recoveries though only an incidental advantage is by itself a sufficient justification, if one were needed, for redeeming agricultural indebtedness. It is calculated that the cultivators will save, in interest charges alone, a sum of nearly Rs. $4\frac{1}{2}$ lakhs calculating the interest at 25 per cent. We are informed that the scheme is popular and requests for liquidation are coming in from other Mahals also. Originally only one Committee was appointed for the investigation of accounts, and fixing of the amounts to be paid in composition. On account of the demand from other Mahals, three more Committees have been appointed and more may become necessary, with the increased demand from all the Mahals. We are sure that our readers will have read this account of the heroic attempt by the Bhavnagar Darbar to get rid of agricultural

indebtedness by one stroke of the pen with instruction and interest, because the problem of the heavy indebtedness of the Agriculturist classes is a phenomenon not confined to Bhavnagar alone. It is a fairly common enough condition and the various palliative measures, proposed or in part adopted have been only too partially successful. The present attempt in Bhavnagar is on a large scale, because the attempt is nothing less than to effect a total and complete redemption of the whole of the agriculturist class and thus enable it to make a fresh start involving the advance of a very large sum from the State at some risk. The risk is worth taking if we consider the lofty aim that inspires it. Another aim kept in view at the same time is the reconstruction of the economic basis of the village, which was the old village community and for this purpose Panchayats are to be given to the villages, which are prepared and apply for the same. This means the practical transfer of the whole village administration to the villagers themselves with the minimum of outside interference. The Panchayat is given the power to select and nominate persons of its own choice for the village offices of Talati, Mukhi, Patel, Chowkidars, etc. In course of time when the ground is prepared and the demand is made, freedom is to be given to the village within limits to determine its own method and procedure of revenue collection. The Village Panchayat can also punish contumacy by forfeiting land and auctioning a vacant holding, and it can build up a reserve from the savings remaining after paying the Darbardues and the reserve will be useful for the common purposes of the villages. It can finance the agricultural needs of the Kheduts and will also exercise municipal powers. The Council Resolution No. 226, regarding the establishment of Village Panchayats gives them liberal powers. We consider that Bhavnagar deserves our hearty congratulations for the bold bid, she has made for rural reconstruction, and the result of the State scheme in this regard will be watched with sympathetic interest by well-wishers of the State in particular and generally by all interested in agricultural reconstruction throughout India.

(7)

Leaderette appearing in the 'Times of India,' dated the 23rd June 1932.

AGRICULTURAL DEBT REDEMPTION.

No state in India has done more to lighten the burden of debt of its cultivators than Bhavnagar. Even when His Highness the Maharaja of Bhavnagar was a minor, he desired that the burden of his cultivators' debt should be lightened as much as possible and that this should be done before he ascended the Gadi. That was the reason which prompted the Darbar to pass orders to write off about Rs. 20 lakhs of arrears of revenue in 1929. At the same time, an inquiry into agricultural indebtedness to money-lenders was ordered and arrangements were made to ensure that, while relief was given to the farmer against illegal and usurious exactions, the legitimate dues were paid to the Sowcar. The inquiry was thorough and it was discovered that the rate of interest charged by money-lenders averaged between 18 to 25 per cent. and that advantage was further taken of the ignorance and helplessness of the farmers by falsification of accounts. The grave economic condition of the peasantry revealed as a result of the Committee's enquiry prompted Sir Prabhashanker Pattani, President of the Council, to adopt urgent remedial measures to restore economic health to the debt-depressed farmer and thus to avoid agrarian trouble. With a view to afford relief in regard to past usurious transactions and protection against victimisation in the future, the State passed a Protection Act, the working of which should arrest the attention of the whole of India.

This Act has been largely modelled on the Deccan Agriculturists' Relief Act, with modifications to meet local conditions. Sir Prabhashanker was quick to note that, even after the great relief afforded to the cultivators from the Darbar and private indebtedness, the same conditions might recur unless the cultivators learnt economy and unless a scheme was devised, which might enable the farmers to meet their liabilities without incurring further debt. With this end in view it was resolved to establish Village Panchayats, which approach full self-government of villages. The State has thus not only embarked on a debt redemption scheme, but all practical measures have been adopted for the prevention of debt in the future. In reviewing the recent administration report, we pointed out that Sowcar's book debts amounting

to Rs. 3,59,702 had been compromised for Rs. 1,02,747. Those figures applied to cultivators of 12 villages only. One more Mahal of 36 villages has now been redeemed for Rs. 2,61,427 against indebtedness amounting to Rs. 9,95,463. Thus cultivators of Bhavnagar, who were suffering from chronic indebtedness will by this measure of relief annually save nearly Rs. 2,50,000. The Committee is now engaged in taking figures of other big Mahals, and the result of their efforts deserves to be watched with sympathetic attention.

(8)

Extract from the Presidential Address by Sir Chunilal V. Mehta, K.C.S.I., M.A., LL.B., J.P., to the Seventeenth Bombay Provincial Co-operative Conference, September 1932.

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To quote the Indian Central Banking Committee, the problem (of debt redemption) is one "of supreme importance from the point of the economic prosperity of the country as well as for the purpose of stemming the growth of discontent among a large section of the population." As the Royal Commission on Agriculture pointed out the worst policy towards debt is to ignore it and do nothing. The Central Banking Inquiry Committee have themselves suggested directions along which constructive effort can proceed; and much valuable work on these lines has been conducted in the Central Provinces, in the Punjab, in Bihar and Orissa and only very lately, in our near neighbourhood, in the State of Bhavnagar in Kathiawad."

(9)

Leading article appearing in the 'United India and Indian States,' dated the 12th November 1932.

AGRICULTURAL INDEBTEDNESS IN BHAVNAGAR.

We had occasion sometime ago to comment in these columns† on the praiseworthy effort taken in the Bhavnagar State to get rid of the demon of agricultural indebtedness in the State. Bhavnagar was a particularly bad sufferer from this kind of indebtedness; the result was reflected in the never-do-well condition of the agriculturist as an

† Vide Appendix VIII (6).

individual. The State suffered, because it did not get its revenue promptly or punctually and huge arrears of land revenue, was, as we had occasion to notice in our reviews of the administration report of the State, a permanent characteristic. Agriculture suffered, because after all the human factor cannot be regarded as negligible and you cannot expect much from the labour or enthusiasm of an agriculturist round whose neck hang the huge mill-stone of debt represented by his dues to the Sowcar on account of loans and to the State as arrears of land revenue. The administration of the State on the initiative of that sage statesman Sir Prabhashanker Pattani tried its best to give the agriculturist a new lease of free life by remitting arrears of land revenue from time to time and giving other facilities; but this policy by itself did not succeed, because as the State receded, the Sowcar made his inches into ells—so that the indebtedness remained and the sacrifice by the State of its revenue did not benefit the agriculturist, for whose benefit it was intended. This led to the constitution of a Committee of experienced officers to make a departmental inquiry into Agricultural indebtedness. We have already had occasion to refer to the action taken by the Bhavnagar Administration on that Report. So far the State had redeemed five Tappas or Peta-Mahals paying the annual assessment of Rs. 4,86,658. The total nominal debt of the Kheduts as in February of this year amounted to Rs. 14,19,378 which has been compounded by paying a total sum of Rs. 3,67,991. To appreciate this statement, we have to bear in mind that the nucleus of the original debt was in reality a very small amount, and the swelling of this figure into more than four times the original principal sum borrowed was due to “addition by way of interest, premia and numerous other charges, which the Sowcar’s ingenuity sharpened by greed is so fertile in inventing.” There is thus no question of confiscation or of robbing Peter to pay Paul. It is obvious that the agriculturist is benefited by the process. It is also true the Sowcar also benefits because under the Scheme he is enabled to recover in cash and at one stroke far more than he could, if left to his own devices, have hoped to collect in a number of years from his Khedut customers suffering from chronic indebtedness. With any further grievance of the Sowcar in this connection, any temptation at sympathy is considerably mitigated by the consideration that an interest of 25 per cent. is the prevailing rate in the State, while rates of double and treble this rate are not uncommon. In the circumstances a heroic

remedy was called for and we think on the whole the arrangement now adopted by the State can be defended on principles of equity and good conscience as well as of sound administrative policy. In a letter sent by Sir Prabhashanker Pattani to an inquirer regarding the Scheme from the United Provinces—Mr. V. N. Mehta, I.C.S., the then Secretary to the Government of the Province and now member of the Kashmir Government—Sir Prabhashanker Pattani well says :—

“ Arguments by analogy are often misleading, but as you know it has come to be increasingly recognised that if the world is to be cured of the universal economic malaise which has overtaken it and a fresh start made possible, it can only be done by first removing the intolerable burden of reparations and war debts. In a smaller way this also applies in the case of a poor, debt-depressed and all but insolvent class like the Indian Khedut.”

In Bhavnagar, a good beginning has been made in what after all is an All-India problem. Speaking at the Calcutta University Institute the other day, the President of the Bengal Chamber of Commerce, Mr. Nalini Ranjan Sirkar emphasised the importance of public attention being directed to a concrete attempt at the wholesale redemption of the indebted Khedut class. The efforts now made in Bhavnagar to this end must, therefore, deserve the serious consideration of all official and non-official persons in this country interested in the revival of Indian agricultural prosperity. We are glad that serious-minded people in other parts of India are showing interest in the Bhavnagar solution of a vexed but common problem, as the letter of the Secretary, Government, United Provinces, to Sir Prabhashanker Pattani, well illustrates. Mr. Mehta, I.C.S., in his letter to Sir Prabhashanker queries—once you wipe out indebtedness in this way, what is there to prevent the flood of indebtedness rolling back on the Khedut? We require, he says, some kind of dyke to prevent this; otherwise it will be love's labour lost, a kind of Seisyphean waste of effort. The reply of Sir Prabhashanker Pattani to this obvious criticism is published in a pamphlet along with a number of papers connected with the Debt Redemption Scheme and the Gramya Panchayat Scheme, to which it would be well if public attention is directed in other parts of India not free from this particular malady. The Gramya Panchayat Scheme is the natural complement of the Redemption Scheme. It would not be statesmanship to allow agricul-

tural indebtedness to grow unchecked till the agriculturist became a free, enlightened, economic, human unit. It is a vicious circle, really, and a beginning has to be made somewhere in the reform of the conditions, under which the agriculturist lives, moves and has his being. But the problem is only half solved if we have given relief to the agriculturist from his immediate troubles. That is no protection to him against a recurrence of what has become a chronic malady. How to get over this? Or is the malady incurable? If it were the last, one may wonder whether the end really justifies the means in the particular solution of the problem adopted by Bhavnagar. We, however, shall never correctly appreciate the Debt Redemption Scheme in Bhavnagar, if we do not regard it as only a partial solution; its complete success depends on the success of the Gramya Panchayat scheme and the other measures of uplift of the Khedut, which the State had adopted consistently with its policy of uplift of the agriculturist. This last, however, will take time. "The full development of such a Panchayat," says Sir Prabhashanker in his letter to Mr. Mehta, referring to the Gramya (Village) Panchayats, "must in the very nature of things be a very slow process. Meanwhile we must remain content with such palliatives as may be provided by the advance on a liberal scale of State Tagavi and the extension of the Co-operative Credit Societies. These two between them will finance all reasonable agricultural needs of the Khedut and make him independent." The result of the experiment in Bhavnagar has been already such as to encourage hopes. One immediate good result has been better and easier recoveries of the land revenue in the five Tappas redeemed. We hope that efforts will be made to follow the advantage thus secured with the constitution of Village Panchayats in this area. Under the Village Panchayat code, any village fulfilling certain qualifications is free to claim the grant of a Panchayat involving the practical transfer of the whole village administration to the villagers themselves with the minimum of outside interference. Another measure, which will stabilise the scheme of village uplift thus started, the organisation of the Co-operative Movement in the State. It will generally be agreed that in the past the progress of the movement has been arrested by the unholy competition of the Sowcar, which let us hope, has once for all disappeared in Bhavnagar. A third aspect of the attack on agricultural indebtedness—not the least important, by any means—is through an increase in popular enlightenment due to education.

The average farmer in India may be a fatalist in most things even to an unhealthy extent; but he has common sense and patience, habits of industry and thrift of rare degree: with a little more education, he should be an admirable specimen of agriculturist equal to his compeer in any part of the world. We wish the Bhavnagar experiment every success, and hope that it will have imitators among other Indian administrations.

(10)

Extract from the leading article in the 'United India and Indian States' dated the 26th November 1932, reviewing the Administration Report of the State for the year 1930-31.

BHAVNAGAR IN 1930-1931.

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"We recently dealt in detail in these columns with the Debt Redemption Scheme, a comprehensive Scheme of relief of agricultural indebtedness unique in this country which will be watched with interest in India, as the evil, which the Scheme was designed to cure, is not confined to Bhavnagar alone. The fact that even Sowcars are praying for the application of the scheme shows that it is not one-sided and is to the interest of the lender. Another progressive measure which deserves mention is the scheme of rural reconstruction, which is intended by the Village Panchayat Code. The adoption of measures to relieve agricultural indebtedness would have been merely a temporary palliative unless the improvement effected by it was made permanent by villagers taking over the management of their own affairs and being made responsible for the development of the economic welfare of the ryots.

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Extract from the Times of India Annual, 1933.

BHAVNAGAR.

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"Though the present Maharaja has inherited a rich State and an administration that has acquired an all-India reputation under the guidance of that veteran, Sir Prabhashanker Pattani, his task cannot

be said to be easy owing to most difficult times, which the whole of India has now to meet. But he has entered upon a life of responsibilities, of which he is not only conscious, but by reason of his training and natural intelligence, he is capable of shouldering those responsibilities in a manner which has added to the prosperity and contentment of his people and enhanced their traditional devotion towards him. He regards the agricultural population as the back-bone of the prosperity of the State and his first act has been to confer a real boon on them by allowing them the right of selling and transferring their property to agriculturists only. His Highness is paying particular attention to a scheme for settling the debts of farmers in such a way that money-lenders might recover the principal with a moderate amount of interest. This Scheme was devised as a complement to an Agriculturist's Relief Act and has been tested in a way which should compel attention all over the country. Merchants and agriculturists in certain areas in the State express their willingness for their accounts to be settled and a Committee of Officers and representatives of money-lenders was appointed for the purpose. It was found the amount owing, according to money-lenders' books, was Rs. 3,59,702 and the sum found actually due according to certain prescribed rules was Rs. 1,84,507, a sum which was eventually reduced to Rs. 1,02,747. This attempt to effect a complete redemption of the whole of the agriculturist class and thus to enable it to make a fresh start is unique. "No doubt this will necessitate the advance of a very large sum and some risk is also inevitable under the circumstances; but considering the lofty and benevolent aims which have motivated this attempt, the risk involved is not excessive and certainly worth taking.

"Another notable reform that has been introduced in Bhavnagar is the grant of local *panchayat* to villages."